

HELSINGIN KAUPPAKORKEAKOULU

KANSAINVÄLISEN LIIKETOIMINNAN KOULUTUSOHJELMA



THE GROWTH FROM A DOMESTIC SERVICE COMPANY TO AN
INTERNATIONAL HAIRDRESSERS' SUPPLIER CONCERN

Helsingin
Kauppaikorkeakoulun
Kirjasto

7413

Liiketaloustiede: Kansainvälisen
liiketoiminnan pro gradu tutkielma
Tero Aalto, 21467-6
Syyslukukausi 1998

Markkinoinnin

laitoksen

laitosneuvoston kokouksessa 21/10 1998 hyväksytty

arvosanalla

lubenter approbatur

Prof. Rebecca Marschan ja Jukka-Pekka

Luoostarinen

Tero Aalto

16.9.1998

KOTIMAISEN PALVELUYRITYKSEN KASVU KANSAINVÄLISEKSI KAMPAAMOALAN TUKKUKONSERNIKSI

Tutkimuksen tavoite

Tutkimuksen tavoitteena oli analysoida Suomen kampaamoalan ja erityisesti sen tukkuliikkeiden toimintaympäristön muuttumiseen vaikuttaneiden seikkojen vaikutusta näiden yritysten strategioihin ja toimintatapoihin. Erityisesti tutkittiin laman ja Euroopan Unioniin liittymisen vaikutuksia ja näiden luomia mahdollisuuksia alan yritysten kansainvälistymiselle.

Tutkimuksen lähdeaineisto

Teoreettisen viitekehikon kehittämiseen käytettiin apuna yritysten kansainvälistymisen teorioita koskevaa kirjallisuutta. Lisäksi tutustuttiin kampaamoalasta kertovaan kirjallisuuteen ja tutkimuksiin. Case-yritys edusti hyvin alan tukkuliikkeitä ja valittiin tällä perusteella. Tutkimuksen pääasiallinen lähdeaineisto kerättiin haastattelemalla alan työntekijöitä ja johtoa.

Tutkimusmenetelmä

Viitekehikon testausmenetelmänä käytettiin kohdeyritysten yhdeksän toimitusjohtajan ja vientijohtajan haastatteluja. Lisäksi analysoitiin operatiivisella tasolla kohteena olleen case-yrityksen strategiaa, toimintatapoja ja markkinointia.

Tutkimuksen tulokset

Alan kohdeyritysten strategiat, markkinointitoimenpiteet ja näiden muutokset sekä niissä onnistuminen selvitettiin sillä tarkkuudella kuin yritykset itse ne ilmoittivat. Näiden tietojen avulla tehtiin kilpailuympäristöanalyysi. Tutkimuksesta kävi ilmi, että alan yritysten kansainvälistyminen ja kilpailuedun löytäminen kansainvälisestä liiketoiminnasta on kanavoitunut suuria kemian jälleenmyyntitukkuja lukuunottamatta vain muutamalle yksittäiselle tukkuliikkeelle, jotka toimivat rajatulla maantieteellisellä alueella. Kansainvälistymistä ovat hidastaneet korkeat tullit, suuret minimi tilausmäärät ja vähäinen yhteistyö alalla. Muuttuvassa markkinatilanteessa kilpailuedun hankkiminen kansainvälistymällä on suositeltavaa.

Tero Aalto

16.9.1998

THE GROWTH FROM A DOMESTIC SERVICE COMPANY TO AN INTERNATIONAL
HAIRDRESSERS' SUPPLIER CONCERN

Purpose of the study

The purpose of this study was to analyze the effects of the recent changes in Finnish hairdresser's industry and especially in the business environment of the wholesale companies in this field of business on the strategies and operation of these companies. In further detail the effects of the recession and the joining of the European Union were examined. Furthermore the opportunities created by these events on the internationalization of these companies were studied.

Conceptual framework

The theoretical framework was created by using the literature on the theories of internationalization of companies. Furthermore, literature and studies of hairdresser industry in general were carefully studied. The case company represented well the wholesale companies of this industry and was thus chosen. The empirical data of the study was gathered mainly by interviews of workers and management in the hairdresser business.

Research method

Interviews of nine CEOs and export managers were used as testing method of the framework of the study. In addition the strategy, operations and marketing of the case company was analyzed on an operational level.

Findings of the study

The companies' strategies and marketing actions were studied at such accuracy as the companies shared this information. Based on this information the changes and successes in these actions were also studied. Based on this information a competition environment analysis was made. The main findings of the study were that with the exception of a few big chemical products wholesale companies the internationalization and using of international business as a competitive advantage is concentrated on few individual wholesale companies that are acting regionally. The internationalization has been slowed down by high customs tariffs, big minimum order quantities of goods and scarce cooperation in the field. In the changing market environment it is recommended that competitive advantage is sought by internationalization.

TABLE OF CONTENTS

1 INTRODUCTION	1
1.1 Background	1
1.2 Research gap	2
1.3 Purpose of the study	5
1.4 Definitions and limitations of the study	7
2 THE INTERNATIONALIZATION PROCESS	9
2.1 Theory of internationalization of the firm	9
2.2 Operation modes	12
2.3 Pressure factors	16
2.3.1 Push forces	17
2.3.2 Pull forces	18
2.4 Other theories of internationalization	18
2.5 The framework of the study	30
3 METHODOLOGY	32
3.1 The method of the study and its limitations	32
3.2 Interviews	33
4 THE COMPANIES AND THE BUSINESS	35
4.1 The International comparison	38
4.1.1 Distribution	39
4.1.2 Pricing	42
4.1.3 Warehousing	46
4.1.4 Promotion	48
4.2 Background of the case company	51
4.2.1 The establishment of the company	51
4.2.2 The original business idea	52
4.2.3 Personal backgrounds and the characteristics of a hairdresser	53
4.3 Changes in environment	55
4.4 The pressure factors met by the company	56
4.4.1 Domestic pressure	57
4.4.2 International pressure	59
4.5 The resources of the company	61
4.5.1 Product expertise	61
4.5.2 Financial resources	62
4.5.3 Personnel resources	63
4.5.4 Sources of products	64
4.5.5 Ability to compete	64
4.6 SWOT-Analysis	65
4.6.1 Strengths	65
4.6.2 Weaknesses	69
4.6.3 Opportunities	70
4.6.4 Threats	73

5 THE INTERNATIONALIZATION PLAN	75
5.1 The ability to internationalize	75
5.1.1 Demands	76
5.1.1.1 Supply channels	76
5.1.1.2 Delivery channels	79
5.1.1.3 Logistics	81
5.1.1.4 Financing	82
5.1.1.5 Warehousing	83
5.1.1.6 Image	84
5.1.1.7 Reliability	85
5.1.1.8 Delivery times	85
5.1.1.9 Payment methods	86
5.1.1.10 Incomplete deliveries	87
5.1.1.11 Credit risk	87
5.1.2 Resources	88
5.1.2.1 Warehouse	88
5.1.2.2 Financial assets	89
5.1.2.3 Delivery channel contacts	89
5.1.2.4 The teacher	89
5.1.2.5 Luck	91
5.1.2.6 The author as negotiator	91
5.1.2.7 Product expertise	92
5.1.2.8 Knowledge of the business and competitors	93
5.1.3 Obstacles	93
5.1.4 Risks	95
5.2 The consequences on domestic business	96
5.3 Inward internationalization in the company	98
5.3.1 Competence	99
5.3.2 Time to manage the activities	99
5.3.3 Logistics	100
5.3.4 Credit risks	100
5.4 Foreign trade aspects	101
 6 SUMMARY AND CONCLUSIONS	 104
6.1 Managerial implications	109

APPENDICES

LIST OF REFERENCES

INTERVIEWS

1. INTRODUCTION

1. INTRODUCTION

1.1 Background

In recent years the awareness of and interest towards the possibilities and gains to be achieved by internationalization has tremendously increased in Finnish companies and within their management. Not only the worsened domestic economic situation, but also the new business opportunities created in the uniting Europe has further raised the intrigue of this kind of a process.

The classical examples of companies that have internationalized either willingly or without other viable options can be derived from mainly the forest and metal industries, where the scale of operations and investments force to seek business potential also from outside the borders of Finland. However, little discussion and research has been carried out about the possibilities that internationalization can provide to the smaller Finnish companies.

These smaller companies usually have limited resources, yet a strong desire to learn and utilize the new opportunities that have been created by such actions as Finland joining the European Union or the European anti-trust laws that illegalize the restriction of competition and provide free transfer of goods and services. These changes will have an important role especially in some until now oligopolistic fields of business, as is the

1. INTRODUCTION

case of wholesale of hairdresser's tools and equipment, which will be studied in this Thesis.

The research and studies made on hairdresser's industry in general, whether the point of view would be that of the wholesales company or the individual hairdresser's salon, is very meager, almost inexistent. The brand wholesales companies of hairdresser's chemical products (e.g. Wella, Goldwell etc.) of course make studies of their products and their images, but mainly for themselves. The association of Finnish hairdressers (Suomen Kähertäjäliitto r.y.) however makes studies about the industry and publishes some material of general nature yearly.

The factors explaining the scarce amount of research especially on wholesales companies of hairdresser's tools and equipment are small overall market for these products in Finland, fragmented industry with no individual companies who would dominate the market of these products and small amount of real competition and little threat of new entries.

1.2 Research gap

However good the many theories of internationalization are and even if some of them are especially designed for small and open economies¹, like Finland, the applicability of these theories as such for small companies is

often not sufficient. Furthermore, the companies in small oligopolistic industries in Finland have perhaps not felt the need to explore internationalization as a serious competitive advantage due to the well-protected market.

It can be that also the researchers often lack the special knowledge essential to analyze this kind of industries and the complex relationships within these industries, which affect all the business decisions made by those companies. This has been the situation in Finland within the industry of wholesale of tools, equipment and chemical products for hairdressers.

There is very little research made on the Finnish wholesale companies operating in the hairdresser's products industry. Most of the scarce research concentrate on big well-known companies selling and marketing chemical products². Other studies made on this industry earlier have also concentrated either on the hairdresser's business and how to run a hairdresser's salon or on the strategies and competition between the wholesalers of global brands of chemical products for the professional hairdressers, whereas studies of companies that concentrate mainly on hairdresser's tools and equipment are almost non-existent. The lack of research in general in addition to the traditionally oligopolistic nature³ of

¹ e.g. Luostarinen: "Internationalization of the Firm", 1979

² Such as Wella, Goldwell, L'Oreal and alike

³ The number of relevant companies acting mainly in the business of selling hairdresser tools and equipment in Finland is small (less than 10) and their customer base is usually regional.

this special branch of this industry makes it an interesting target for research.

This study combines the recent general interest towards internationalization of Finnish companies and the yet neglected target of research, namely the wholesale business of hairdresser's tools and equipment of Finnish companies. This research that studies the possibilities and gains of internationalization of a Finnish wholesale company of hairdresser's tools and equipment was inspired by the writer's close working with the subject in such a company.

The lack of other studies in this field of business and on its international aspect made the mission demanding, but at the same time it gave the opportunity to adapt the existing theories and information very closely to the recent state of affairs in this field. Furthermore the close working relationships of the writer with the key persons in Finnish wholesale companies of hairdresser's products gave this study such information, which cannot be found written anywhere and which essentially affect the recommended course of action for an internationalizing company operating in this business.

The companies have been content to operate within their traditional local region of business, which have made the competition oligopolistic from the local hairdresser's point of view.

1.3 Purpose of the study

This study has a different focus than the studies made before as it is directed to study the very special and narrow field within this industry, namely the competition, entry and international perspective in the field of wholesales of hairdresser's tools and equipment. The internationalization of this field (both inward and outward⁴) has been very superficial and very cautious.

The study was made to create an internationalization business strategy for a company that has operated a long time in the hairdresser business, but as a customer, not as a supplier of the goods it needs. The literature and studies that depict or give a comprehensive understanding for an entrepreneur or anyone interested in the true and real competition and its nature in the hair care tools and equipment business are scarce, practically non-existent.

This study will give a holistic picture that cannot be found existing anywhere, but is rather formed of several interviews, findings and opinions within a longer period of time.

The primary object of this study is to analyze the opportunities and ways to gain competitive advantage to the wholesales of hairdresser's tools and

⁴ Luostarinen & Welch, 1990, p. 182

1. INTRODUCTION

equipment by internationalization when provided with the knowledge and resources as of the company in the focus of this study.

The following questions describe in more detail the main problem of this study and they are to be answered by the findings of this study:

- How can a Finnish hairdresser's tools and equipment company internationalize and utilize the internationalization as a key competitive advantage ?
- How do the Finnish wholesale companies differ from foreign ones, especially from those in the United Kingdom?
- What are the strategies and competitive methods used by the companies in this field and how should they be changed to prepare internationalization?

There are some subproblems and industry specific characteristics that are also going to be answered in order to better understand the facts lying behind the actual research problem. These questions are described here below:

- What is the overall picture of the industry in question and how is the business conducted at the moment ?

1. INTRODUCTION

- Why are the prices of the products in this industry relatively high and are there possibilities to cut off unnecessary middlemen from the distribution network ?

1.4 Definitions and limitations of the study

In the empirical part, the interviews and gathering of information is done from a few of the biggest companies in the field due to their real ability to compete and independently choose their strategies (including pricing etc.) as well as due to their somewhat developed international business. Also due to the relatively high importance of a customer group, namely the trade schools of hairdressers, whose purchases per year make a big share of many wholesalers' turnover, the key persons involved in this sector will also be interviewed as they have the power to influence the wholesalers' strategies and actions to some extent.

The theories mainly used in the internationalization process of this study, namely those by Luostarinen and Welch are chosen, because due to their stages-model they are suitable just for this kind of business which starts to internationalize stepwise based on further experience on the field. However there are other approaches to the internationalization and different perspectives (e.g. the network approach by Johanson and Mattson), but for this study the theories of Luostarinen and Welch

seemed to be most appropriate completed with different views from other authors.

One key term that Luostarinen uses is the term 'lateral rigidity'⁵ in his theory of internationalization of the Firm and relies on the concept in defining hypotheses to support his theory. The term describes the unwillingness of a company to deviate from the plans it has made to achieve its goals. Often a company is very active forwards, i.e. to realize its predetermined plans, but very rigid laterally to change its plans due to changes in the environment.

⁵ Presented by Fedi Vaivio (Luostarinen, 1979, p.32)

2. THE INTERNATIONALIZATION PROCESS

2. THE INTERNATIONALIZATION PROCESS

Literature of internationalization and international companies' strategies will be used in constructing the theoretical framework of this study. Also literature on competition and competitive strategies and advantages will be used for this purpose.

In analyzing the internationalization and international connections the literature of Luostarinen, Welch, Turnbull and Strandskov will be used along with other literature. In conducting the analysis of the industry, its competition and competitors Porter's competitor analysis will be used together with theories by Mintzberg and Quinn. Also the literature and studies made on hairdresser industry and business will be studied. The very contributing factor of the writer's own experience in the heart of the events in finding out information about and setting up this kind of business in practice should not be left out or understated.

2.1 Theory of internationalization of the firm

In his theory Luostarinen presents five hypotheses⁶ describing the internationalization process, its motives and development. In his theory he claims that

⁶ Luostarinen, 1979, p. 62-63

2. THE INTERNATIONALIZATION PROCESS

- 1) The behavior of the company in general and international business decision-making behavior in particular is characterized by lateral rigidity⁷
- 2) The degree of lateral rigidity towards internationalization is usually high at the beginning of the company's life cycle, but it may decrease through time as a result of organizational learning
- 3) This organizational learning is due to the possibility-oriented pull of foreign markets and/or to the problem-oriented push of domestic markets
- 4) For firms with small domestic markets the international business involvement is usually due to a domestic market push
- 5) In small countries the source of the push is to be found in the smallness and openness of domestic markets

Luostarinen defines the concept laterally rigid decision making process⁸ in the following way. "The nature of the decision-making behavior in firms depends on the way impulses are perceived and acquired (perception behavior), on the way the impulses are reacted to (reaction behavior), on the way the search for alternative solutions to the impulses is conducted

⁷ for explanation of the term, see p.8

(search behavior) and finally on the way the choice between alternatives is made in the company system (choice behavior)."

Lateral rigidity and lack of knowledge go hand in hand. In making final decisions a company is usually willing to select those alternatives, which are known to it and tries to avoid those alternatives which are unfamiliar. This means that the decision-making behavior and process of the company is rigid in lateral direction i.e. towards new alternatives, but is elastic forwards, that is, towards known alternatives.

Because most strategic decisions are new, innovative and genuine by nature and most operative decisions are repetitive and self-regenerative by nature, a high degree of lateral rigidity and forward elasticity usually means passive strategic behavior, but active operative behavior.

The push and pull forces influencing and facing a company will be discussed in more detail in sections 2.3.1 and 2.3.2. Also the pressure factors that create the need to act both on operational and strategic behavior and change these will be further explored in chapter 2.3.

⁸ Luostarinen, Lateral Rigidity in International Business Decision-Making, Helsinki School of Economics, FIBO Working Paper, 1977/1; ref. Luostarinen, 1979, p. 34-35

2.2 Operation modes

Choosing the operation mode(s) by which to conduct international business is a very important decision for a company independent of its size. In making the choice all the resources and expertise available should be taken into consideration. The number of different operation modes is vast and if the operation modes are not carefully selected in the first place, it could mean a lot of resources being wasted while not all of them are in efficient use at the same time. Therefore a big emphasis should be put on the selection of the operation mode, if already decided to enter the international business environment.

In his internationalization theory Luostarinen⁹ defines international business operation modes by their functional (marketing and production operations) and investment dimension (non-direct and direct investment operations). These operation modes are defined for outward-going international operations only, but to a certain extent they are available for modification to study also the inward-coming international operations.

Having combined both the functional and investment involvement dimension Luostarinen¹⁰ presents the following international business operations divided in four categories:

⁹ Luostarinen, 1979, pp. 106-108

¹⁰ Luostarinen, 1979, pp. 109-111

2. THE INTERNATIONALIZATION PROCESS

Non-direct investment marketing operations (NIMOS)

- indirect export operations for goods
- direct export operations for goods
- service export operations
- know-how export operations
- partial project export operations

Non-direct investment production operations (NIPOS)

- licensing operations
- franchising operations
- contract manufacturing operations
- turnkey operations
- coproduction operations

Direct investment marketing operations (DIMOS)

- sales promotion subsidiaries
- warehousing units
- service units
- sales subsidiaries

Direct investment production operations (DIPOS)

- assembling subsidiaries
- manufacturing subsidiaries

Companies not already being involved in international business operations tend to have a limited perception towards impulses suggesting such a course of action. In more detail, these companies usually face the 'need' for international activities in form of an unsolicited order suggesting the use of a non-investment marketing operation (NIMOS). According to Luostarinen¹¹ the companies in this stage of internationalization have a high degree of lateral rigidity in the perception of impulses suggesting international operations in general and thus the span of their attention to perceive other than NIMOS-impulses is limited.

Furthermore, even if other than NIMOS impulses are perceived by the company in its pre-internationalization stage, the reaction towards them is more restricted.¹² This can be the true for a number of reasons, such as:

- the lack of preparedness for such impulses
- the strangeness of the operations and their target groups

¹¹ Luostarinen, 1979, pp. 113-114

¹² Luostarinen, 1979, p. 114

2. THE INTERNATIONALIZATION PROCESS

- the operations do not belong to anybody's area of responsibility
- lack of skills and knowledge to proceed any further with the perceived impulse

For companies in small and open economies the utilization of marketing operations for internationalization offers the company that has based its domestic growth on product or industrial diversification the possibility to enjoy the economies of internationalization. It gives the company the advantage of being able to narrow its business and to concentrate on producing those products in long runs that offer the most profitable business opportunities both domestically and in the foreign markets as well.¹³

To summarize, the marketing operations are usually the most common operations used in the early stages of internationalization due to the limitations in a company's perception of internationalization impulses, the unwillingness or inability to react upon those impulses and the fact that these operations give the company the possibility to enjoy economies of scale by narrowing and concentrating its resources to production of the most profitable products and broadening the market area for these products. Further, due to the lack of knowledge and also resources, the non-investment type of marketing operations are preferred over investment requiring marketing operations. The lack of knowledge, experience and resources make the risk associated in investment

2. THE INTERNATIONALIZATION PROCESS

operations higher from the company's point of view than in non-investment operations.

Luostarinen has used a classification that is very useful in terms of considering the function and investment probability/convenience of a firm. There are also other ways of defining international business operations. In fact Luostarinen and Welch¹⁴ have broadened the concept of international operations and they define seven different outward international operations groups:

- export operations
- licensing operations
- franchising operations
- management contract operations
- subcontracting and contract manufacturing operations
- project operations
- subsidiary operations

2.3 Pressure factors

Pressure factors in this context are all the forces (i.e. impulses) that bring the company opportunities that could be taken advantage of by getting

¹³ Luostarinen, 1979, p. 115

¹⁴ Luostarinen & Welch, 1990, pp. 20-179

involved in an international business operation or threats that would have negative effects on the company's present business if not acted upon by getting involved in international business operations. Not all of these impulses are necessarily perceived by the company itself, in fact these pressure factors are general issues or changes in the business environment that usually have effects on a larger number of companies at once, not depending on whether all the companies perceive them at the same time.

These pressure factors can be divided into two categories, namely the push forces (usually created by threats or negative developments in the domestic business environment) and the pull forces (usually caused by perceived opportunities in foreign markets or international business operations).

2.3.1 Push forces

Push forces are the domestic forces (events, characteristics) that push a company to internationalize, usually to seek new markets for its products or services.

Push forces are usually perceived as a consequence of a change or development in the domestic business environment. In other words, if nothing changes in the company, its business or markets, in a stable

2. THE INTERNATIONALIZATION PROCESS

environment there usually are very little forces that would actively push a company to internationalize.

2.3.2 Pull forces

Pull forces are the international (foreign) forces (events, opportunities) that pull a company to internationalize its business.

Pull forces do not necessarily require any changes to happen in the company's domestic business environment to be perceived by the management. The pull forces co-exist all the time as an alternative to broaden the scope or amount of business for a company, however a change in foreign business environment can strengthen or weaken these pull forces. The perception of these depends much on the activity and interest of the company's management to seek and find out information about them.

2.4 Other theories of internationalization

There are other theories and perspectives on Internationalization of a company than that presented by Luostarinen, although this theory serves the purpose of this study most accurately due to the nature and characteristics of this study. However, to get a holistic view and a broader

2. THE INTERNATIONALIZATION PROCESS

perspective on the internationalization and its conceptualization, some other writers comments and theories will briefly be presented here.

There are some quite popular theories that explain the internationalization of a firm. There is the stages theory and the "orientations theory" and many others. Turnbull¹⁵, comments these theories very thoroughly in the following way:

"The 'stages theory of internationalization' argues that firms proceed in a consistent stepwise fashion along some organizational continuum as they develop their international activities. This core assumption that is explicit in the 'stages approach' is also four in many explanations of how firms internationalize. For example, Tookey (1969)¹⁶ sees three steps in terms of 'exporting', 'international marketing', and 'international business'. These steps are differentiated by the objectives they aim to achieve. In the exporting stage, second stage of international marketing, firms make consistent efforts to maximize profitable sales and meet needs in world markets. In the final stage, international business, firms are principally concerned with managing global operations.

While other writers conceptualize internationalization differently, they still view it as an orderly and progressive sequence. Wind, Douglas, and

¹⁵ Turnbull, P.W., A challenge to the stages theory of the internationalization process (In P.J. Rosson and S.D. Reed (eds) *Managing Export Entry and Expansion*, Praeger, New York, 1987), ref. Buckley, P.J. and Ghauri, P., 1993, p.172-173

2. THE INTERNATIONALIZATION PROCESS

Perlmutter (1973)¹⁷, for example, consider it as a process in which specific attitudes or 'orientations' are associated with successive stages in the evolution of international operations. They identify four attitude types - ethnocentrism, polycentrism, regiocentrism, and geocentrism, that are reflected in the goals, philosophies, and exporting stages of international companies - and specific exporting strategies. The ethnocentric business (which is primarily 'oriented' to the home country) views overseas operations as secondary to domestic ones, and mainly as a way of disposing of surplus domestic production. This type of orientation and export emphasis gradually changes until a final stage of foreign involvement is reached. In this final 'geocentric' (world orientation) phase, the entire world is seen as a potential market, and policies are developed on an international basis."

Sharing the same kind of view on internationalization as Luostarinen and Welch, also Randi Skare¹⁸ describes internationalization as a coin of two sides, one consisting of inbound internationalization and the other of outbound internationalization. He states that one cannot exist without the other. Skare also brings up the example of buy-back contracts that are often applied in Norwegian trade and thus illuminate the connection between outbound and inbound internationalization.

¹⁶ Turnbull refers here to Tookey, D. (1969), 'International Business and Political Geography', *British Journal of Marketing* 3(3): 18-29

¹⁷ He refers to Wind, Y., S. P. Douglas, and H.V. Perlmutter (1973), 'Guidelines for Developing International Marketing Strategies', *Journal of marketing* 37 (April): 14-23

Deriving from the author's own experience in the hair dresser's equipment business it can be stated that the buy-back trade and interdependence between the wholesale companies in that field of business is rather high, though not officially measurable or based on contracts per se.

Being small in size and having the customer base within a small geographical area means that no one wholesale company on its own can afford to keep a storage of all goods a customer might need, thus buy-back exists unofficially caused by the pressure of the business environment where these companies operate.¹⁹

Many researchers use the word 'internationalization' meaning only the outward internationalization of a firm. However, many of the same findings even in studies made from the outbound internationalization point of view apply to the inward internationalization when reviewed from a reverse course of thinking.

Nordström²⁰ explains the traditional views of several authors in his book.

“... a firm's internationalization, whether through exports of FDI, is a consequence of its growth (Carlson, 1975)”²¹

¹⁸ Skare, 1993, pp. 3-4

¹⁹ Asko Toivonen, 1994

²⁰ Nordström, 1990, p.20

As export or FDI could be the consequence of the growth of a company, the same can be applied to inward internationalization from a reverse course of actions. The seek of growth can be the factor that triggers the starting of the inward internationalization through imports or other actions of inbound internationalization.

When studying the internationalization process during the 1970's researchers at the University of Uppsala (Hörnell, Vahlne, Wiedersheim-Paul and Johanson) developed some underlying assumptions for their model of the firm's choice of market and form of entry when going abroad.²²

First they assumed that when a firm has to begin a search for new activities to increase or sustain its profitability, new alternatives generally seem more uncertain than old, familiar ones, which directs this search towards alternatives as similar as possible to existing operations.²³

Their second assumption was that uncertainty about the outcome of an action increases with distance and that firms would have better knowledge about their immediate environments. Based on this they

²¹ He refers to Carlson, C., 1975, "How Foreign is Foreign Trade - A problem in International Business Research", *Acta Universitatis Upsaliensis Studia Oeconomiae Negotiorum*, 11.

²² Nordström, 1990, pp. 19-20

²³ This holds true also in the case company, where imports seemed least uncertain of existing alternatives, based on minimal, but existing previous experience, even though having been done by a customer, but using the case company as the importer. Also the starting of importing relied heavily on existing knowledge and contacts of an employee and the hiring of a new employee to handle the actual importing, while existing personnel carried on with the same tasks as before.

2. THE INTERNATIONALIZATION PROCESS

assumed that companies seek alternatives with a lowest possible degree of “foreignness”.

Also Luostarinen²⁴ presents the hypothesis that companies will most likely make their first foreign entry to a country, whose geographical distance from the company’s home country is very small. He later proves this hypothesis true by empirical data as described here in table 1.

Table 1, The absolute frequencies of the first foreign entry of companies by country clusters based on geographical distance

<u>COUNTRY CLUSTERS BY</u> <u>GEOGRAPHICAL DISTANCE</u>	<u>COMPANY</u> <u>FREQUENCIES</u>
Very close	690
Close	158
Medium	27
Distant	42
Very distant	7
TOTAL	924

Source: Luostarinen²⁵

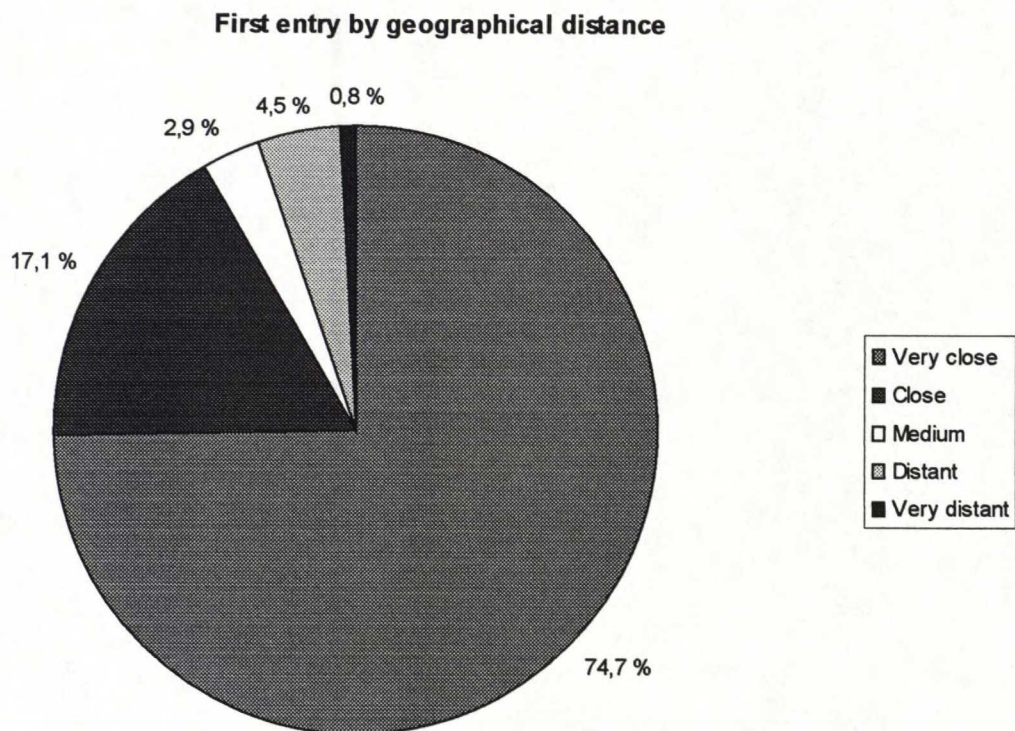
As can be seen from the table above, the first foreign entry by country clusters by companies indicates a heavy concentration of first foreign entries to geographically very close or close countries. This can derive

²⁴ Luostarinen, 1979, p. 144

2. THE INTERNATIONALIZATION PROCESS

from a number of reasons, one being that the amount of knowledge being often higher of markets close to the home market, thus also the financial risk can be perceived lower with a higher level of knowledge.

Table 2, the relative frequencies of the first foreign entry of companies by country clusters based on geographical distance



Source: Adapted from Luostarinen²⁶

This assumption very likely holds true also for the inward internationalization and the starting of import operations, because the situation and conditions that a company starting to internationalize

²⁵ Luostarinen, 1979, Table 22., p.149

²⁶ Luostarinen, 1979, Table 22., p.149

2. THE INTERNATIONALIZATION PROCESS

inward faces are very similar to the one internationalizing outwards, but was not in the scope of the study of Luostarinen in 1979.

Further related to the factors of “foreignness” and uncertainty and their effects on how the internationalization gets started Strandskov describes the export development process from various perspectives²⁷, one being that of Bilkey and Tesar²⁸, according to whom there are six stages to start exporting as follows:

Stage 1.

Management is not interested in exporting; would not even fill an unsolicited export order.

Stage 2.

Management would fill an unsolicited export order, but makes no effort to explore the feasibility of exporting.

Stage 3.

Management actively explores the feasibility of exporting

Stage 4.

The firm exports on an experimental basis to some psychologically close countries

²⁷ Strandskov, 1986, pp. 6-9

2. THE INTERNATIONALIZATION PROCESS

Stage 5.

The firm is an experienced exporter to that country and adjusts exports optimally to changing exchange rates, tariffs, etc.

Stage 6.

Management explores the feasibility of exporting to additional countries that psychologically are further away.

Again this thinking can be reversed when studying the beginning stages of inward internationalization and the starting of import activities. The six stages presented here above could be modified to describe the actual beginning of importing as follows:

Stage 1.

Management is not interested in importing; would not even fill a customer order, if it would require importing.

Stage 2.

Management would fill a customer order requiring importing, but makes no effort to explore the feasibility of importing any further.

Stage 3.

²⁸ He refers to Bilkey, W. and G. Tesar, The export behaviour of Smaller-Sized Wisconsin Manufacturing Firms", Journal of International Business Studies, Vol.8, Spring/Summer 1977, pp. 93-98

2. THE INTERNATIONALIZATION PROCESS

Management actively explores the feasibility of importing.

Stage 4.

The firm imports on an experimental basis from some psychologically close countries

Stage 5.

The firm is an experienced importer from that country and adjusts imports optimally to changing exchange rates, tariffs, etc.

Stage 6.

Management explores the feasibility of importing from additional countries that psychologically are further away.

However, Nordström states that the concept of psychic distance would be out-of-date and not as such valid anymore.²⁹ He points out three factors supporting his view.

First, he refers to several authors (Vernon, 1979; Porter, 1980, 1984, 1986; Levitt, 1983; Ohmae, 1985) having claimed that the world has generally over time moved towards homogenization, especially within the business community. Levitt states that technology would be the underlying factor that is driving the world towards convergence. He presents that with the new technology people all around the world, even

2. THE INTERNATIONALIZATION PROCESS

in the most isolated places, are able to see, hear and experience developments, trends, products and news from the most distant places. Technology has also brought the communications, transport and travel to a level available to almost anybody.

Secondly, Nordström emphasizes the fact that companies today have easier and quicker access to knowledge about doing business abroad than in the days of the development of the psychic distance model of internationalization. Universities, business schools and management training centers all around the world are putting more and more emphasis on international business and thus their students are becoming acquainted with subject. The absolute number of people having experience of international business has increased. Utilizing the services of the consulting industry, which has grown tremendously during the past two decades, can also reduce the uncertainty.

Third, he declares that:

“... the emergence of companies that manage a few or several of their activities *as if* the world was a single borderless and homogenous entity is also a driving force toward a global community.”³⁰

²⁹ Nordström, 1991, pp. 27-31

³⁰ Nordström, 1991, p. 29

2. THE INTERNATIONALIZATION PROCESS

One of the first authors to mention the fact about the phenomenon of some companies acting as if the world would be a single, homogenous market place was Perlmutter.³¹ Nordström himself points out that several Multinational companies no longer see foreign subsidiaries as separate, independent units, nor satellites of the headquarter, but rather as a part of the whole, focusing on worldwide objectives. The emergence of MNCs worldwide strategies and the structure of their organizations and activities according to worldwide product lines support his view of the lessening meaning of psychic distance.

“... However, it should be clear that no firm handles *all* its activities as if the world was one single market. Adaptations to local conditions, especially in downstream activities, are always necessary.”³²

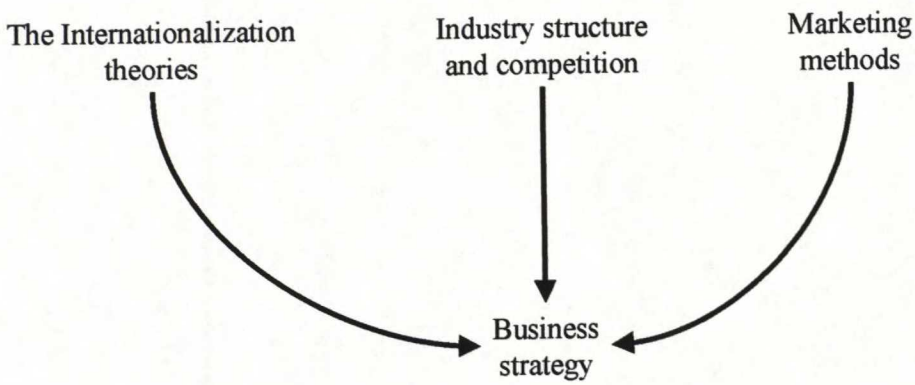
Nordström points out, however, that some adaptations according to local taste, trends, culture and customs are to be taken into account even if the world is more homogenous than perhaps a few decades ago.

³¹ Perlmutter, R.V., “The Tortuous Evolution of the Multinational Corporation”, *Columbia Journal of World Business*. January-February

2.5 The framework of the study

The theoretical framework of the study consists of the several theories discussed before and is the sum of the factors in these theories that contribute to the finding of a suitable model and solution for the problems presented in the beginning of this study paper.

Figure 1 , Framework of the study



The establishment of a business strategy where the development of new marketing methods and business operations for this field of business and international experience and establishment are utilized as competitive advantages. This business strategy for internationalizing the company's activities and utilizing it as a competitive advantage is derived from the limitations of the present industry structure and competition and the

³² Nordström, 1991, p. 30

2. THE INTERNATIONALIZATION PROCESS

possibilities brought by adapting the internationalization and marketing theories in practise to the case company.

The framework is suitable for the industry in question, because of the smallness of both the companies and the market of hairdresser's tools and equipment in Finland. These limitations in the business environment guide the companies to a step-by-step course of actions due to a limited set of resources.

3. METHODOLOGY

3. METHODOLOGY

3.1 The method of the study and its limitations

This study is a qualitative study that will be primarily based on the descriptive analysis of the the case company and the competition and the industry structure in the wholesales business of the hairdresser's tools and chemistry industry in Finland.

As this field of business is very fragmented and there are hardly any clearly dominating companies in the field (there are a few bigger ones, but mainly these companies act on a regional basis), it would be very time-consuming and even a waste of time to study all of the companies in this field in the empirical part. Especially as many of these regionally acting companies are not truly internationalized in any way, but conduct all of their business domestically and are dependent of other domestic wholesales companies.

The interviews are conducted in English and Finnish according to the interviewee. To gain both sufficient knowledge of both the case company and the international business environment interviews will be made both within Cencei Oy and among CEOs and export managers in both domestic and foreign wholesale companies.

3. METHODOLOGY

Quantitative data will be used to confirm and validate the presumptions and opinions of the leading key persons' opinions concerning the industry in general and the competitive rivalry between the companies operating in this field of business.

The analysis and findings will be based on greatly case-sensitive and company-sensitive analysis of the data. The findings and results will be interpreted in conjunction with a comparison of the data with the situation and facts of the same business and its development in the United Kingdom.

3.2 Interviews

The method of this study is going to be descriptive analytical, the information gathered will be described and an analysis of the reasons and relationships lying behind these descriptions will be given at the same time. The information gathering from and of the companies in the field, the customers and other influential parties will be conducted by interviews of the key persons (managers, buyers, founders of companies) in these institutions both domestically and abroad. The method of gathering information by interviews seemed to be the only choice available. As merely no studies have been made in this specific field of business, no relevant information seemed to be available in written form.

3. METHODOLOGY

Also due to the key position of the writer himself in this business, it seemed quite easy to get in personal contact with the key persons who had the relevant information about their company, its actions and the reasons why they had done the business decisions that had occurred. However, any additional information that will be found from other sources or by different methods will be used, if appropriate for the purpose of this study.

4. THE COMPANIES AND THE BUSINESS

In this chapter, the author will give an overall picture of the industry in question and how the business is conducted at the moment.

To get a good comprehension of the situation of the hairdresser products and equipment business in Finland some major guidelines of conducting the business will here be reviewed. The description of the practical level in hairdresser goods and equipment business in Finland is mainly based on the interviews and discussions that the writer of this thesis has had with the persons in key positions in this business.

The international comparison on the practical level is also based on the interviews of a professional in this field, who practices his business in England. Last but not least the authors own experience in a key position of this field and his perceptions shall not be left out in this review of the industry.

The Finnish market of hairdresser goods and equipment has been very well protected and the situation at the moment very much resembles the situation in some other leading European countries of this industry for many years ago³³.

³³ Stevenson, 1994

In other words, we in Finland have not yet reached the level or the more developed and sophisticated methods by which this business is conducted in the major European countries. This will, which is going to be pointed out later in this thesis, inevitably require and with time lead to the restructuring of the whole business.

One of the contributing factors to the lagging behind in development of this field (compared e.g. with the United Kingdom) is the smallness of the Finnish market for products of this kind. There are only around 5.000 firms, salons or independent entrepreneurs in the business in total.³⁴ Also the smallness of these units (measured by the number of people employed on the average) is very small. Kervinen³⁵ estimates that of these units around 80% employ only one person, 15% employ 2-4 persons, 5% employ 5-10 persons and only 1% employ more than 10 persons.³⁶

The smallness of the market and the hairdresser units mean that not very big economies of scale can be achieved in wholesales of hairdresser's products and equipment. Sometimes even the minimum quantities set by manufacturers of products for orders cannot be met in such a small market. This fact has been a serious obstacle for the development of the

³⁴ Kervinen, 1988, p. 9. However Nenonen and some other persons in the business estimate that in year 1994 the number of these units would be already around 6.000

³⁵ Kervinen, 1988, p.10

³⁶ The average number of persons employed by a hairdresser unit (whether it be a firm, a salon or an independent entrepreneur) derived from these figures is around 1.7 - 1.8 persons, which is quite a small number even when compared internationally

wholesales business towards the direction that it has developed for example in the United Kingdom.

These circumstances have the effect that the products, especially when taking into account the wholesaler, who is not conducting business in the country as a whole, but only locally, have to be bought, not from the manufacturer, but instead from a middleman (e.g. a big wholesaler in another European country), which raises the costs. Also the smallness of the units means that the average cost spent to sell one product rises higher than in countries where the size of units is bigger (higher delivery costs due to distance, less products sold to one unit, more time spent with the customer per sold unit etc.).

Another reason for being a "laggard" in an international perspective for some deal has also to do with the fact that as Finland was not a member of the European Union until in the beginning of 1995, the importation of goods from abroad has been penalized by tariffs and regulations that sometimes even demand the products to be retested in Finland totally in spite of them having been sold or their safety having been tested in other European countries for already many years. This can be seen as lateral rigidity in the industry, as described by Luostarinen.³⁷

This has not only made it more difficult for domestic competition to arise in this field, but has also effectively killed the interest of foreign

wholesalers or, which is even worse, foreign suppliers of selling their products to Finland, due to the complexity and trouble involved in the procedure. However, Finland joining the European Union has changed this and provides better business prospects also for this industry.

Both the smallness of the market and business units and the protectionism by customs tariffs and other regulations have had the effect that the development of the Finnish hairdresser market (in terms of wholesales and distribution of the goods and equipment) has fallen behind of that of the major European countries. Due to the vast amount of financial resources and formalities with the government officials needed to start to build up same kind of a wholesales and distribution systems for hairdresser's goods and equipment as there are in other European countries (e.g. the United Kingdom) has slowed down this development that has only merely started by 1994.

4.1 The International comparison

To gain a better understanding of what kind of methods and structures the wholesales business includes and consists of in other countries (in this example, for the reasons of simplicity of gathering the information and due to its to some extent familiarity to the author, the country in focus is the United Kingdom) and how these differ from those used and

³⁷ Luostarinen, 1979, p.32

prevailing in Finland at the moment. I will here conduct a comparison between Finland and the United Kingdom on the most essential characteristics involved in wholesale business of hairdresser's tools and equipment (as well as chemical products too in this particular example).

4.1.1 Distribution

Distribution is characterized by the hereforth-mentioned practices and procedures in the United Kingdom.

- Major Brand distribution is decentralized (cash & carries³⁸).
- Customers (mainly mobile hairdressers³⁹) come to the store rather than have representatives visiting them.
- There are no restrictions of competition.
- Not everything is sold under the same roof, but all of the most common articles are available.

³⁸ Cash & Carry is (in this case) a combination of a wholesale and a retail outlet (from a Finnish point of view), because it has characteristics of both of them. It is a wholesale outlet in terms of importing or buying its goods without middlemen usually straight from the producer, it is often a part of a franchise or a buying chain of cash & carries. It sells products directly to professional hairdressers, who often have membership (or frequent buyer) cards, against which discount on purchases is granted. However it resembles also a retail outlet, because anyone, a plain consumer, can buy the products sold there without being a member (however products, whose misuse could induce danger to ones health are sold to professionals only, e.g. perms).

³⁹ The term mobile hairdresser is here used to describe a hairdresser, who works for him/herself only (is a type of an entrepreneur), who often does not have any salon premises at all and does a contributing part of his/her job in the customers own home. These mobile hairdressers have become very popular in England, because the charge for a house call is not much bigger than the rate, if the customer comes to the hairdresser's premises i.e. usually his/her home (the writer would like to point out that the economical rates are often due to "moonlighting" and not informing or paying any taxes of this activity to the state) and because the high cost of daycare for children, which makes many mothers stay home to nurse their children and difficult to run their errands (like visiting the hairdresser's).

4. THE COMPANIES AND THE BUSINESS

- Distribution through local dealers with a local customer base.
- Low administration costs due to a light organization.
- Tough competition between distributors (retailers), no monopolies on any products, small margins.
- Consumers are also their customers, especially if the location is attractive to them.
- Consumers can buy "professional products" with wholesale prices and get more value for their money.
- No financial support or free training is organized to customers, main competitive advantage is price and close location.

In Finland the distribution is characterized respectively by the following .

- Major Brand (Wella, Goldwell, etc.) distribution is centralized.
- Heavy organization within the brand wholesale companies, they try to sustain an image of being full service houses (everything from combs to furniture can be bought from the same company).
- They have a sales force of their own (hired by the companies on their payroll), high administration costs.
- Their customer base is nationwide.
- High margins.
- Monopoly in supplying the major brands chemical products. EU and its antitrust laws and laws against restriction of competition might have some effect on this.

- Individual consumers cannot buy any of the products directly from the wholesaler, only from the hairdresser's.
- According to the amount of purchases, wholesalers provide free or cheap training, advertising money and marketing support to hairdressers.

As can be noticed from the comparison of distribution of products, especially the branded chemical products, the organization of distribution is totally different in the United Kingdom and Finland. The basic difference is that the distribution in Finland is centralized, which in its turn is relying on the monopoly status that the big chemical companies selling branded products have and are not forced to give it up according to the present legislation. Apart from the high profits that a company in monopoly position wishes to achieve there are certainly also other reasons for the difference in the organization of the distribution in these two countries.

The situation in the United Kingdom used to be the same as in Finland at the moment for a number of years ago.⁴⁰ But in time the monopolies have broken down, partly due to the prohibition of monopolies and on the other hand due to the free trade and free movement of goods. A monopoly could not stay a monopoly if anyone can import the same goods without any tariffs from neighboring countries.

⁴⁰ Stevenson, 1994

However, there is another factor explaining the centralized distribution in Finland compared to the opposite situation in the United Kingdom. The density of population in Finland is only about 14.3 inhabitants per square kilometer, whereas it is as high as 229.2 in the United Kingdom.⁴¹ Being able to serve all the customers (meaning the hairdressers) in Finland decentralized is more difficult than in the UK, due to the customers being more spread around the country.

Even though the monopolies would break down, it is more likely that the distribution, to remain profitable, would be decentralized to a regional level rather than a local level. As in the UK there can be a two-figured number of distributors in one city, it is more likely that the distribution in Finland could concentrate in bigger cities where the customers living in small and distant towns or villages could make their orders by telephone or mail.

4.1.2 Pricing

Here next are described the factors affecting pricing of products in the United Kingdom.

- Fixed costs (of e.g. administration, sales force and marketing) are small, hence it provides the opportunity to cut down the price for which the

⁴¹ Pikku Jättiläinen, 1985, pp. 303, 333

products are sold. The heavy competition also forces the wholesalers to do so.

- The customers possess a very high price-awareness and therefore the margins are kept low.
- Due to heavy competition some products can occasionally be sold at cost price or even at loss to attract customers, who, when they visit the cash & carry, usually buy also products with a higher margin at the same time.
- The warehouses are not big and the rate of circulation of the goods is quite high.

The characteristics of pricing in Finland differ from the previous and are thus described for comparison here below.

- Fixed costs are high in the organization itself (administration, marketing, warehousing).
- In addition the wholesaler has to add on the price the sales representative's commission (and fixed costs), the discounts that are given to biggest customers (which can rise as high as 50% from list price, which is paid by an individual hairdresser, who buys the same product), discounts that are given to all customers (a percentage of annual purchases), presents that are given to customers (e.g. a free cruise to Stockholm and back for buying a hair dryer machine).

4. THE COMPANIES AND THE BUSINESS

- Products are never sold at cost price or loss (no need to, as they have the monopoly).

The restrictions of distribution, the monopoly and the missing opportunity for the consumers to buy directly from the distributor in Finland have caused the higher prices and margins in the hairdresser's chemical products, equipment and tools business. The organizations of the distributors are heavy and costly, not to mention the huge amounts of money that are spent on free or subsidized training, courses, cruises and gifts provided to the customers. The heavy price discrimination (not a few percents, but as much as up to 50%) between the smaller and the bigger customers is also keeping the price level unnaturally high.

As the list prices are high and the contracts (defining the discounts each year) made with each customer are kept secret, an individual customer cannot know whether he is paying more than other customers of the same distributor for the exact same products.

The price awareness of the hairdressers (and consumers) in Finland cannot be as good as it is in the UK, mainly for two distinct reasons. The attitude of Finnish hairdressers⁴² towards their business emphasizes the services and their own skills in providing these services. The selling of hair care products is considered a minor "side-effect" that comes with the profession and is not valued as an additional source of income. According

to Kervinen's study he estimates that out of the total income of hairdressers' the selling of related products would add up to only eight percent of the total revenues.

The other reason for the poor price awareness is that the consumers cannot buy these products directly from the distributors. Now hair care products are bought from the hairdresser's quite seldom due to the high prices and often only if one has run out of a certain hair care product he or she needs. As the distribution would become more local, unnecessary middlemen would be cut off of the distribution chain and the prices of these products would drop. That would also lead to the fact that the "professional" hair care products would get an image more like any other consumable products and with great probability the advertising of these products would be activated by the distributors trying to attract as much customers as possible to their premises. This would cut off the relation between using hairdresser's services and buying professional hair care products. They do not necessarily have to have anything to do with each other. This is the case with other cosmetics, which are not bought only when visiting a cosmetologist, but every day from chemist's and department stores. The price awareness of those products is quite high among consumers.

⁴² Kervinen, 1988, pp. 24-25, 256

4.1.3 Warehousing

Warehousing is one key element that relates both to the costs of running a business as well as to the level of service provided to the customers. Often forgotten, the warehousing (and logistics) builds the backbone of any goods trading business enabling fast and comprehensive service despite fluctuation in demand or deliveries.

The warehousing in U.K. can be identified by following factors.

- The cost of warehousing in general is small compared to Finnish wholesalers.
- The actual stock of goods in money value terms, however, is usually quite high. As the units are often small and aim to service all customers within the region of their location, the cash & carries try to sustain a wide selection of items to serve as large a customer base as possible.
- In spite of that, the number of each individual product in stock is quite small and therefore the circulation rate of stock is very high, as it has to be to compensate for the money tied up in keeping a wide selection of goods.
- Due to the small amount of individual goods purchased at a time, many cash & carries have formed purchasing pools⁴³ and thus by co-operation enhanced their competitiveness.

⁴³ A purchasing pool refers to a number of companies, not connected to each other by any ownership arrangements nor by any other interdependence at all that, for the benefit of all members of the pool, make joint

The Finnish companies' warehousing is portrayed through the following aspects.

- High warehousing costs, as the wholesale companies sustain an image of a sophisticated company (and products) with a high level of service, which requires that all goods are available at all times (delivery time often 1-2 days) to all customers, no matter how big the order. This applies to the major brand wholesalers.
- The small individual wholesalers do not sustain the image of being able at all times to supply the customer with a specific product, but a corresponding product can always be offered.
- For some extent due to secret cartels and agreed-upon retail prices⁴⁴ it has been difficult to achieve low warehousing costs.
- Companies (excluding major brand companies) in general are too small to buy bigger quantities at low prices and their financial liquidity does not allow a huge purchase of one particular item.
- Also the not so local competition and envy between the small wholesalers has prevented an honest co-operation to lower the warehousing costs.

purchases of goods they all need. No-one member of the pool makes any profit in the purchasing event itself, it is only an arrangement to allow purchases of higher amounts of goods at a lower price than any of the pool members could achieve themselves. Stevenson, 1994

⁴⁴ According to writer's own experience and reliable sources these have existed, however, even within these cartels there has prevailed cheating all along. Not always have the prices within these "cartels" been commonly agreed upon, sometimes these "cartels" have just been like the purchasing pools in the U.K. with the difference

In Finland the major chemical brand wholesale companies feel obliged to be able to deliver whatever product the hairdresser orders from them at any given time, which leads to a very big stock of goods both in number and money terms. The fact that these brand wholesale companies also supply regional smaller wholesale companies with their tools and equipment (with discounts according to the amount ordered) leads to an even bigger amount of goods in stock. The huge stock of goods leads to high cost of warehousing.

The regional wholesale companies of tools and equipment in turn are relatively small and cannot afford to order nor to keep a big pile of goods in stock. This leads to higher purchasing prices from suppliers and also in form of interest payments (the liquidity of these companies is usually not on a very high level) high warehousing costs.

4.1.4 Promotion

Promotion, one key element of marketing, has its distinguished characters in England as described here.

that the company who has done the actual purchase for the members has taken a considerable margin of this transaction himself and thus indirectly set the lowest possible price for the products in question.

4. THE COMPANIES AND THE BUSINESS

- Very little of high cost advertising (TV, major newspapers or radio commercials).
- Advertising is done mainly in local newspapers by the cash & carries (and direct mail to known customers).
- High level of promotion on new products that are introduced, the wholesalers and customers are often offered special promotion packs of major manufacturers brands (e.g. buy two for the price of one or get one free, when you buy a certain amount of a certain product).
- Customer loyalty is kept high by low pricing and good personal service even though not all of the products would be available at all times.

Promotion in Finnish hairdresser industry is characterized by the following practises and qualities.

- High cost advertising, (e.g. TV), image advertising.
- Major brand wholesale companies are participating in almost every hairdresser shop's advertisement costs and sponsoring different kind of events arranged by hairdressers.
- Arrangement of leisure-time cruises and exhibition trips abroad at low cost or loss for trying to keep up customer loyalty and providing good experiences.
- Small or non-existent discounts on products, when they are introduced for the first time.

4. THE COMPANIES AND THE BUSINESS

- Visits by salesmen to the individual hairdressers to promote new products and to keep up the customer relationship.

In the UK the new products may be launched in events (like international exhibitions or competitions) that draw a lot of audience, mainly hairdressers, but also consumers. This is done by the major brand manufacturer or wholesale company. The local promotion then usually is done by offering 'promotion packs', i.e. discounts on the new product in order to get the customers to try it out.

In Finland the launch of the new product may not be in connection with any special event at all. The product is launched in Finland as soon as it comes available to the Finnish market (when the manufacturer is able to provide the products with Finnish printing on the cans and containers).

The promotion is divided in two. For professionals it is mainly done by advertising campaigns in the hairdresser magazines and by promotional printed material sent to customers along with their invoices and other mail. To attract the consumers, the major brand wholesale companies provide stickers, posters, signs and cabinets designed for the new product to be placed within the hairdresser's premises.

The Finnish economy becomes more open and also the market of hairdresser's tools and equipment grows bigger, in a sense that the European Union can be viewed as one big marketplace without any

borders or obstacles for free trade. Therefore it is more likely that the until now isolated Finnish market for these products will start to resemble more the markets for these goods in the rest of the European Union. To understand what kind of changes can and will happen in the business environment of these companies, it is necessary to compare the existing key differences in the businesses between Finland and an EU member country, which in this case is the United Kingdom.

4.2 Background of the case company

In this chapter I will present the background of the company in question in this study. I will in particular concentrate on the primary reasons behind the establishment of the company and its original business idea. Also briefly will be described the motives and background of the people in key positions in the company as when it was originally established.

4.2.1 The establishment of the company

The company in focus of this study is actually the parent company of a concern that includes three companies. The concern structure is quite new for this group of companies and was not established before the autumn in year 1993, although some of the companies in this concern have existed already as early as in 1983.

The company that will get my main focus in this study is CENCEI OY, which is, as earlier mentioned, one part of three concern structured companies. Although as the purpose is to investigate the opportunities of growth through internationalization of CENCEI OY from the basis and resources initially provided by and with the help of experience and resources created in VIP-Hiusklubi Oy, a deeper insight to this company is also necessary to understand the situation that is to be studied.

4.2.2 The original business idea

As mentioned earlier in this study, the current situation and the main problem of this study cannot be understood without getting essential background information of the short, but successful history of this concern. The establishment of the first of the three companies in this concern took place in 1983. At that time VIP-Hiusklubi Oy, a hairdresser's salon, was established. The salon was established by Kreetta-Liisa Marttunen, the co-owner of Cencei Oy with Veikko Nenonen, who was already at that time also her fiancé.

The business idea was to offer high quality, higher medium priced hairdressers services to customers who would regard the quality of the work as their prior concern (members of the parliament, company

managers, in general people who put high priority on looking good in their everyday environment).

4.2.3 Personal backgrounds and the characteristics of a hairdresser

To understand the ways in which customers and their characteristics make the business somewhat different from traditional b-to-b trade of consumer business, it is necessary to understand some key characteristics of a hairdresser, which will be depicted here.

Marttunen had the education of a hairdresser and wanted to set up a business of her own by using her skills in a company owned by her and her fiancé and thereby gaining more of the financial utility derived from her skills to herself as the part-owner.

However, hairdressers are very artistic-like people. They enjoy doing their work, being able to create something with their own skills, by their own hands and imagination. The work is often more important to them as a means to express themselves than moneywise. This artistic character and way of thinking often is overexaggerated in hairdressers and therefore their interest in and hence also capability of managing "harder values and

concepts". Therefore running a company and taking care of its operative tasks proves out to be very difficult for many of them.⁴⁵

At the time when VIP-Hiusklubi was established, Veikko Nenonen, Marttunen's fiancé, was working in the computer business. He had studied towards the education of an engineer and was also studying economics at that time. As it soon turned out, although being very skilled in her work as a hairdresser, Marttunen needed help in bookkeeping and in running the business in general. That is when Nenonen stepped into the picture and took over the management of the hairdresser business, which started to prosper and as a consequence another two salons were opened later on.

The skills of the management of the hairdresser's salon chain accumulated and the experience and contacts gained during the time period of over ten years gave a good picture of the industry to Nenonen. Being a man he also often got into talks with the managers (who mainly are men too) of the wholesales companies of both chemical products and also those of tools and equipment. This is how he step by step got some insights to the business in general and more knowledge about the ways of these companies to conduct their own businesses.

⁴⁵ Nenonen, 1994, (see also Kervinen, 1988, p. 89, 101, 102)

This point was also raised by many of the persons, especially managers of wholesales companies and representatives of these companies, who visit their customers on daily basis. Of course this statement is too

4.3 Changes in environment

The hairdresser's business prospered during the 1980's and still in the very beginning of the 1990's. The overall economic boom and the high consumption level guaranteed good business also for hairdresser's services and products sold to the customers. It was quite easy to succeed, the initial costs of setting up a hairdresser's salon were high due to the high cost of business premises and equipment (such as wash basins, wall mounted hair dryers, customer seats etc.), but running the business was profitable.

One reason for the profitability was that the services provided were free of V.A.T (products also for some extent). Other reasons contributing to the economical success were the loyalty of the customers, which meant that no tough price competition was necessary and the extra income generated by selling the professional hair care products⁴⁶ to customers.

However, in the 1990's the recession struck badly on almost all businesses, also the hairdresser's. People got laid off as a result of many companies going bankrupt, even more companies making losses. Many of those laid off remained unemployed and their level of income dropped. The drop of incomes caused many personal "bankruptcies", when people could not pay back the loans they had and lost their homes and property

strong to be true for every hairdresser, but there seems to be a quite widely accepted understanding of this characterization of the qualities and way of thinking of a hairdresser by people working in this branch

to the banks. As a result of all this, consumers had less money to spend than before and the first things that they cut off of their consumption were the luxury products (which the professional hair care products also were considered to be due to the radical price difference between them and the equivalent products sold in every grocery store and super market) and the consumer durables.

The bad news for the hairdressers' however did not end there, one thing that changes from time to time is fashion. In the 1990's the fashion changed once again, this time unfavorably for the hairdressers. There had also existed pressure to bring more business activities (like the hairdressers') V.A.T. liable and the recession among other things influenced on the fact that the hairdresser's services were going to be affected by and to be taxed with the V.A.T.

4.4 The pressure factors met by the company

In this chapter and its sections the pressure factors, as defined earlier in section 2.3, that were met by the company in its pre-internationalization phase and that later on led to the start-up of international operations will be reviewed.

⁴⁶ Kervinen, 1988, p. 24-25

4.4.1 Domestic pressure

The introduction of the new V.A.T. law that added a 22% tax on hairdresser's services hit the hairdresser business seriously in the beginning. With the rising cost of hairdresser's services for consumers (although through the tax deductions of goods and services purchased, the costs of hairdresser's companies did not raise by much) the salons faced a dramatic change and had basically only two choices for how to react.

They would have to either add the full tax on the prices so that the amount of money received from any one service would not be affected, but the amount of customers and the frequency with which they would use the hairdresser's services would be bound to drop by this choice. The other choice left would be that of absorbing part of the raised cost to the customer by not raising the prices as much as 22% despite the V.A.T. that has to be paid to the government for every service. However, this would mean that the amount of customers or the frequency of their utilization of hairdresser services would still drop and the amount of money received from those services would do the same.

In other words, the situation seemed very bad. Whatever you do, the result would be foreseen as the drop in number of customers, a drop in net income and a drop in the frequency that the customers visit the salon.

Before the actual introduction of the V.A.T. for services the overall economic depression and recession had also influenced the hairdresser business in the beginning of 1990's. People's income dropped and therefore also their consumption of goods and services, which affected eventually also the consumption of hairdresser's services.

The hairdresser business is always also somewhat effected by the fashion and new trends that prevail in the outlook of people. The whole beginning of the 1990's from the depression and recession years onwards has been the period of fashion that has favored longer hair. The young people especially have been affected by the idealism of rebelling and resisting everything that were the symbols of the economic boom and prosperity during the end of 1980's. This has formed various fashion styles like grunge, the hip-hop and alike, which favor long hair and thus fewer appointments with the hairdressers.

All of these domestic pressures affected the hairdressers' businesses at the same time during the beginning of the 1990's. The introduction of the V.A.T., however seemed like a "last drop" to many entrepreneurs and hairdressers and caused many salons to take drastic and even dramatic actions to start the survival game that faced the industry.

To overcome these drops in income there would have to be either a cut of costs or a raise in total income. The obvious options in this phase

4. THE COMPANIES AND THE BUSINESS

seemed to be either to cut off personnel or to try to sell more services and/or products to the individual customer that visits the salon.

4.4.2 International pressure

As Nenonen had managed his business quite profitably and he was a major customer to the domestic wholesale companies, he was quite well known a character in the hairdresser business. Along the years he had acquainted himself not only with the wholesalers, but also with some individual independent entrepreneurs, who sold hairdresser tools and products for their living without being on anybody's payroll. Some of these salesmen bought occasionally some goods from Nenonen, because the big major brand wholesale companies would not sell any products to them and they did not have the time or money to deal with international wholesalers themselves.

During the years of managing the hairdresser's business Nenonen had occasionally helped out these salesmen by letting them order small purchases of tools using his company as the ordering customer. This way he had also discovered the simplicity of doing international business in the role of a buyer. He had seen the possibility to conduct this kind of business himself, if necessary, but in itself it was just a piece of information not really related to anything he was doing before the year 1993.

In 1993 for tax planning purposes and to get a stronger negotiating position he changed the structure of the companies. The hairdresser's salons and one other company were re-organized in the form of a concern, whose parent company was going to be CENCEI OY.

This, even if it seemed just to be a technical re-organization of business activities had a huge effect on both the daily operational level and also on the opportunities to expand the business to new areas of activities.

However, this was just what was going to be needed by the company as it started to become under heavier pressure to internationalize. The worsened business environment in the domestic market together with the new opportunities found abroad created a strong desire to internationalize some activities.

The international pressure factors (the pull factors) that were growing ever stronger faced the company by the increased knowledge received both by people having experience of foreign markets and marketing material and price knowledge received from foreign wholesale companies. The pull was seen not only in being able to get supplies for own use at more economical prices but also as a possibility to expand the existing business to the wholesale of these products.

4. THE COMPANIES AND THE BUSINESS

4.5 The resources of the company

In CENCEI OY was an enormous concentration of resources, part of which were being already effectively utilized, while a part of these resources were only waiting for the right moment to be discovered and taken advantage of.

In the following chapters I will take a closer focus on the resources that the company had, some of them not even fully known to its management, others that did not even exist before the restructuring of the companies.

4.5.1 Product expertise

Nenonen himself had learned all the basic knowledge of the techniques, tools, equipment and chemicals used by the hairdressers during the 11 years that he had been involved with the business. Having attended many courses, exhibitions and competitions he had a general knowledge of which tools and chemistry a hairdresser needs in her work and which characteristics are appreciated in these products.

Also the very practical expertise gained as a customer of wholesale companies was a major asset, if considering to start wholesale activities himself.

Having around 20 employees, mainly hairdressers, part of them students and apprentices studying to become hairdressers, Nenonen had a vast resource of real hands-on product expertise at his service at any given time. If he wanted to gain more accurate information or an expert's opinion of any product, he only had to ask his employees.

One could say that he had a 'test market' of his own for any products he wished to hear a hairdresser's opinion about.

4.5.2 Financial resources

Having run the company for 11 years had in 1994 resulted in a quite successful hairdresser's with no debt and relatively good operating entity that had already put more emphasis on product retail sales to customers than in the branch on average.

The financial resources provided the opportunity to start experimenting with international activities and the failure would not have any effects on operational business in the hairdressers'.

4. THE COMPANIES AND THE BUSINESS

4.5.3 Personnel resources

Kari Rantanen, a hair stylist that had worked in London and also got some highly appreciated training there joined the Vip-Hiusklubi/Cencei company in 1993. During a period of one year that he had spent in England, he had got familiar with both the hairdressers' working and purchasing methods of goods as well as the wholesale companies' ways of running business in the form of cash & carry outlets. He brought the missing piece of information to Nenonen about the possibilities of the wholesales business in Finland, namely the price information of the goods in England (which were considerably cheaper than the same products here) and the structure of the wholesales business over there.

Rantanen not only inspired the start of planning to do wholesales business in Finland, but also held some vital information about the wholesalers. He knew which were the biggest wholesalers, who had the cheapest price level and how to contact these companies. Based on his knowledge and experience Rantanen together with Nenonen started to draw a plan for starting the wholesales business of hairdresser goods and equipment by CENCEI OY in Finland.

Although Rantanen had good knowledge base (from a customer's point of view) of the hairdresser's products business in England, he was still a hairdresser, although business minded, but maybe not enough to take financial responsibility of developing this business within CENCEI OY.

4. THE COMPANIES AND THE BUSINESS

Also, in spite of his one year spent in England, his knowledge of languages was not sufficient to run business correspondence or negotiations in foreign languages.

4.5.4 Sources of products

At first, there was no knowledge whatsoever about sources of products. Although having attended to some exhibition trips organized by brand wholesale companies, no contact information of any foreign wholesale companies was in the possession of the Cencei company with the exception of a couple of foreign suppliers from whom Cencei had ordered very small amounts of products to some individual sales representatives.

The only starting point was that Rantanen remembered one big wholesale chain (cash & carry chain) by name and had his sister, who lives in London, to deliver a couple of their brochures. When the brochures arrived, they were studied with the greatest enthusiasm and admiration.

4.5.5 Ability to compete

It seemed obvious that Cencei had all the individual characteristics and assets to start experimenting and setting up a wholesale business of

hairdresser's tools and equipment in Finland. The only thing that lacked was experience and to a great extent the channels through which to conduct the business. This applied both on the supply channels from abroad as well as on the delivery channels here in Finland.

4.6 SWOT-Analysis

The more detailed analysis of Cencei Oy is here broken down to the four elements used in the SWOT-analysis.

4.6.1 Strengths

- initial contacts made abroad

As some contacts had already been made abroad in the name of Vip-Hiusklubi Oy and Cencei Oy to supply some independent salesmen who were customers to Cencei Oy⁴⁷, the initial business relationships abroad had been established, although the volume of business was meager.

- a possibility to quickly locate foreign suppliers and to create business contact with them

4. THE COMPANIES AND THE BUSINESS

The small organization⁴⁸ and the writer's basic knowledge of sources of information provided from the early beginning flexibility and efficiency in finding foreign suppliers of appropriate goods and contacting them. Main sources of information were the foreign embassies in Finland and various exhibitions of the hair-care industry abroad. While visiting these exhibitions negotiations were carried on "on the spot", either pre-appointed or agreed upon during the first contact.

- marketing knowledge and expertise already within the company to be utilized

The managing director's experience of the hair-care business in general and as a customer of the wholesalers of both chemicals and tools was an unreplaceable strength for the company. During the 11 years on this field he had learned the most efficient ways to market products to the hairdressers (as well as to the consumers) and had an intuition of what kind of new products could possess the characteristics for success.

- best price competitiveness (small organization, good initial contacts)

⁴⁷ These contacts, however, had mainly been established by the Finnish agent of these foreign companies in Finland. The agent got his commission on every purchase made, but was not involved in the correspondence and business transactions themselves.

⁴⁸ The management of Cencei Oy consisted in the beginning only of the Managing Director Nenonen and the writer, whose title was Import Manager. This structure did not change over time, but the number of persons that worked for the company increased, also within the concern some work was delegated to the staff of Vip-Hiusklubi Oy

4. THE COMPANIES AND THE BUSINESS

Most of the wholesales companies in this business in Finland are either small companies with only a few people working in them and with limited or non-existent direct contacts abroad or big full-service houses that can provide anything anytime, but the organization of these companies is rigid, expensive and often not very efficient.

- already a small existing customer network in Finland

Although the existing customer network was small, it was made up of some of the biggest salons in Finland, some independent salesmen and finally some small wholesales companies. It provided the possibility to order greater amount of goods from abroad than without this customer network. Not all of the goods traded were sold to these customers, also some kind of exchange in form of barter trade was done, this way everyone could utilize their possibilities to buy amounts exceeding their own need from outside suppliers and thus get perhaps extra discount or lower transportation costs.

- small costs of starting business

As Vip-Hiusklubi and Cencei Oy were owned by the same owners, in the start-up phase of the activities of Cencei Oy the already existing resources of Vip-Hiusklubi could be used to the maximum extent without having to make any new investments. At least the existence of big business premises, warehousing space, communication and computer equipment

4. THE COMPANIES AND THE BUSINESS

provided the starting of the business of Cencei Oy with only the costs of one new employee's salary, additional communication expenses and some small costs of office tools and a filing cabinet.

This was clearly a competitive cost advantage, not only compared to the new companies starting in this field, but also compared to the existing wholesales companies, because part of the operating costs and the financing of this business (at least in the very beginning) could be covered by the income generated by the other company, namely the Vip-Hiusklubi Oy.

- basic level experience of foreign trade exists already (the managing director's and the writer's)

The basic experience in international business (which hereby is understood as the knowledge of the different ways of doing international business and financing it, the understanding of different transportation methods and possibilities and payment methods) was gained in theory and somewhat in practice by the previous studies of and businesses ran by both the Managing director and the author.

- steady and growing cash flow from retail sales of hair styling products to consumers

As mentioned earlier in this chapter the cash flow that helped finance the purchases and the operating costs of Cencei Oy was generated within the concern itself and thus no outside financing was needed in the beginning. Without this cash-flow from within the concern it would have been highly likely that the starting of a wholesales business had been extremely difficult, if not impossible due to the lacking collaterals for gaining outside financing.

4.6.2 Weaknesses

- low level of recognizability of the company

The Cencei company was not known to practically anyone in the hairdresser's business. The original idea of founding the company was tax planning, so there had never before been a need to utilize the company for anything else than purchases from the chemical products wholesale companies.

- the arranging of financing (collaterals existing not accepted by bank)

Outside financing in form of a bank loan was almost impossible to get. In the aftermath of the worst recession in decades, the banks had become overly cautious about lending money. At least they wanted the loans to be covered by collaterals. As there were practically no solid property owned

4. THE COMPANIES AND THE BUSINESS

by the company, due to the nature of its business, the banks did not even consider lending the company any money, despite its prosperous business so far.

- the lack of experience in bigger scale wholesales business in Finland
- locality (all premises and business in the Helsinki area)

The hairdressers put very much value on the personal visits by sales representatives just as much businesswise as a social event, which gives a possibility to hear the latest rumors and news within the hairdresser business and the competing salons' actions.

- the lack of sales organization (both towards hairdresser salons and trade schools)

There were neither sales representatives hired by the company nor any knowledge of independent sales reps that would have been suitable to do larger scale business with potential customers.

4.6.3 Opportunities

- to realize the cash & carry concept in Finland

4. THE COMPANIES AND THE BUSINESS

This seemed a lucrative opportunity as it had become a large-scale business in England and being the first to launch the same concept in Finland could result in tremendous success.

- the training and education of hairdressers to increase their sales of products to their customers

This would in turn lead to increased demand of products to be sold and a good base for Cencei's business if it would teach the hairdressers to sell just those products imported by Cencei.

- mail order

Due to the locality of Cencei (and all of the other small wholesale companies as well) mail order could be a cheap and handy way to reach customers of the whole of Finland. However, there was one company that already started this kind of business in 1993.

- sales to consumers too

This is the idea of a cash & carry, to sell the same products both to professional hairdressers and to consumers. The concept could have been adapted without actually establishing a cash & carry, but with more discreet actions (e.g. mail order to consumers).

4. THE COMPANIES AND THE BUSINESS

- to be the first to present new products and innovations and to utilize publicity generated by that

Hairdresser's love novelties and, despite the skimming price strategies, usually buy these novelties as they create an image of expertise and provide an opportunity to promote new services or old services with a new image towards the consumer.

- the increment of the number of co-operation partners

Co-operation in form of purchasing pools as in England or marketing co-operation between the regional wholesale companies would probably raise each participant's profits.

- manufacturing or importing a series of hair styling products exclusive to this company (a brand of its own)

The cost of making a product line of hair styling goods with a brand of one's own is very small. It is also very easy, one only has to provide the manufacturer with a design of the package and the manufacturer will take care of the rest. However, the minimum quantities per item ordered usually are tens of thousands pieces.

- the utilization of salesmen and representatives

4. THE COMPANIES AND THE BUSINESS

As Cencei had no sales force of its own, it would probably want to rely on the independent sales representatives working in the field, because it would be quite risky to hire new personnel of its own, when unsure of the success of the possible wholesale business.

4.6.4 Threats

- major brand wholesalers could cut off the supply of their products to the hair styling salon chain (Vip-Hiusklubi Oy) due to the ownership and management connection between Cencei Oy and these salons

As Cencei would be a direct competitor to the major brand wholesale companies, they could use the dependence of Vip-Hiusklubi to pressure Cencei to stop competing actions. However, it would be likely that only the import and wholesale of chemical products would cause this kind of development, which means that it would not have an effect on the possibility to import tools and equipment.

- the emergence of new competition and companies into this industry

If the setting up of and getting the means and information for a company to start the kind of business that Cencei was planning is as easy as it seemed for Cencei, it would most probably allure also other competitors to the same field of business.

4. THE COMPANIES AND THE BUSINESS

- the loss of exclusive contracts made (the EU-regulations and competition)

The EU-regulations forbid any restriction of competition by exclusive sales contracts and thus Finland joining the EU would end the competitive advantage of such contracts.

- making false judgements on products bought

In the beginning the choice of products that seemed interesting and having potential were chosen by the CEO's subjective opinion. The money to be tied up to these products could prove to be wasted, if the products chosen would not meet the market demand.

- the loss of customer reliability

It is hard enough to get the potential customers to trust a new company in the business so much as to make an order from that company. But if the customer's expectations would not be met after the initial order (the product would not be of good quality, it would not do what it was promised to do, the delivery would not occur when promised, the price would change etc.), the reliability of the company could be lost in the eyes of the customer for years to come.

5. THE INTERNATIONALIZATION PLAN

5. THE INTERNATIONALIZATION PLAN

Although having all the essential resources needed, even though some of the minor resources still lacking, and a strong desire to internationalize put together with both domestic and international pressure factors driving the company inevitably towards internationalization, the company still needed a plan and a strategy of how to put these resources and goals into action.

The purpose of the author and of this study was to develop a plan to realize the internationalization, seen as a process with effects on both the Cencei parent company and its business partners and also the concern's other activities. On the general level the plan can be applied to other wholesale companies in the field seeking to internationalize its activities and business.

5.1 The ability to internationalize

The ability to internationalize can be seen in general as the ability to meet two demands or objectives, namely the demand of necessary resources needed to realize the internationalization and the objective to be able to do it without compromising the existing business. The sustaining of the existing business is very important and therefore the internationalization should not be a series of actions that put its existence at risk. Otherwise the development cannot be called internationalization, but instead

switching from one business to another, which was not the purpose of this plan.

5.1.1 Demands

The demands are here understood as the prerequisites of any actions to start the internationalization process or at least the knowledge of being able to get those prerequisites and overcome the obstacles that were foreseen before starting the process.

The number and type of demands the company faces would naturally change with time, but in the beginning of the internationalization process it was quite clear that there would be a certain number of essential, if not critical factors that had to be taken into account. The most important factors or demands as we call them are here examined in further detail.

5.1.1.1 Supply channels

Perhaps the most important international demand (apart from those meeting the company within the borders of Finland) that was first to overcome was to find the right and suitable supply channels.

5. THE INTERNATIONALIZATION PLAN

According to hairdressers' buying behavior⁴⁹ observations there were certain products (e.g. scissors) the value of which was for a great portion perceived by the country of origin of these products. This was one factor that had its roots in history and tradition and would not be easy to change. However, most of the tools and equipment (apart from some well-known brands) were such that the hairdressers did not care or even know the country of origin not to even mention the foreign supplier of these goods.

This was a good starting point, because it did not limit the suppliers of certain goods in any way and therefore it should be easy to find better sources for tools and equipment than the other wholesale companies had at the moment. Also the regional wholesale companies at the time bought many of their products from one wholesale company⁵⁰ with longer international traditions and relationships.

Finding the supply channels did not seem a big obstacle, there had already been some irregular contacts with certain European suppliers when Cencei had ordered scissors and other tools for some independent sales men from abroad. As the other wholesale companies had a quite high, very identical price-level on many tools, it would be easy to find suppliers, whose products could be offered cheaper in Finland than the

⁴⁹ The information that Nenonen had of the buying behaviour of hairdressers originated from several sources; his own salons and employees, the courses and exhibitions that he had attended as a customer and from the discussions with both sales representatives and managers of both regional and national wholesale companies.

⁵⁰ This company was Käherryshuolto Oy with strong ties to the Finnish hairdressers' association

5. THE INTERNATIONALIZATION PLAN

other wholesale companies did at the moment. However, it was clear that in the longer run, to gain real advantage, it would not be enough to buy from the same European middlemen as did everyone else in Finland. Cencei would have to try to approach the European importer or manufacturer, or even the manufacturer on another continent depending on the product, directly.

The list of middlemen was quite long these times. To give an example, a product could originate from Asia, most often the PRC⁵¹, then it would be traded by a Chinese company to Hong Kong to another company, who would sell the product to various wholesale companies in Hong Kong or to importers in Europe or other continents. In Europe and importer would then sell the product to wholesale companies in central Europe, from whom the Finnish importers would buy the product and sell it to Finnish wholesale companies.

It is no wonder that the price of the product often multiplied on its way from the producer to Finland. The number of middlemen was so big that the strategy to cut off a few middlemen and to try to find the manufacturer or its consecutive trader seemed obvious. This was also spoken out and determined as one of the corner stones of Cencei's strategy to create a competitive international wholesale company in Finland and do it so quickly that the competitors would not have too much time to react.

5. THE INTERNATIONALIZATION PLAN

5.1.1.2 Delivery channels

Delivery channels were the second most important factor that was a demand for starting the international trade, however this was a big problem. There were a few very good contacts, big salons, independent salesmen that had done minimal business with Cencei before. However, Cencei had absolutely no salesforce of its own, no separate premises for its wholesale company (all activity took place in the premises of Vip-Hiusklubi Oy) and no previous business ties with the trade schools (who were one biggest homogenous customer group that demanded the exactly same tools and apparel twice a year). This was a problem that would have to be solved.

It seemed quite clear that as one of the competitive advantages was going to be the light organization, which made it possible to cut the margins and react quickly to changes, the recruiting of sales force of its own would not be a viable option. The delivery channels were a bottleneck, however one would look at the matter, because getting good deals from abroad often required the purchase of big quantities, and again big quantities lying in stock would cause problems in warehousing, financing and jeopardize the existing business as well.

Whatever the solution would be, it would have its risks. The strategy was selected to be the most cautious available. A few independent salesmen

⁵¹ PRC = People's Republic of China

5. THE INTERNATIONALIZATION PLAN

were contacted and some of the best products available (in price/quality/image terms) were offered to them to be sold further with a generous margin, just to get some products moving. The key strategy to begin with, however had two phases that could be realized by existing personnel and resources.

The first phase would be to attend exhibitions for professional hairdressers. By offering both well known branded products with a very low price and some less known products imported by Cencei the hairdressers' attention and interest towards this new player in the field would be caught. Exhibitions would also be an excellent place to distribute promotional material of the company to customers. This way the potential customers were contacted, approached and served for the first time.

The other phase would be to contact the trade schools, especially their buyers long before the schools would begin their Autumn period. Several ways would be utilized to get to know the persons who make the buying decisions in trade schools (registering participants of exhibition competitions, buying a record of Finnish hairdresser's trade schools etc.). Cencei would try to anticipate the needs of the trade schools and their pupils beforehand by interviews and visits and also find out what the competitors are offering or have offered to the schools in the past.

5. THE INTERNATIONALIZATION PLAN

The idea was to be able to forecast the tools and equipment that the schools would need in the beginning of the Autumn semester, order these products beforehand and make a quick tour (several schools per day) in the schools by the staff of Cencei (and VIP-Hiusklubi), when the schools begin with an offer that would beat the other wholesale companies. With these tactics it was supposed that Cencei would get the initial orders and the opportunity to build long lasting business relationships with these schools and their buyers. The relationships would be direct and therefore almost no salesmen would be needed, the company CEO and one of his hairdressers would act as such.

The time seemed suitable for such tactics. The recession had cut the school budgets and the pupils, as opposed to the past, now had to buy their tools themselves. As students have very little money to spend, they often choose the cheapest alternative among wholesale companies offering tools to them. The decision, however, is often done as recommended by the teacher, who is the buyer for the school. Relying on these facts; influencing the school buyer and offering the cheapest alternative Cencei was hoping to get into this wholesale business.

5.1.1.3 Logistics

It does not pay to keep the products in stock for long times, which meant that the rate of circulation would have to be quite high. This in

5. THE INTERNATIONALIZATION PLAN

turn required that the goods traded would have to be available quickly from abroad, if the company would run out of stock. This meant that a reliable freight forwarder with required experience and frequent connections from the supplier countries would have to be found. This was not considered a problem, because there were plenty of freight forwarders available. However, one would not know in practice about the reliability and quality of the service before testing it, which was going to be done before entering larger scale business.

5.1.1.4 Financing

One of the major problems (if business would expand as hoped for) perceived was the financing of the business. Finland still lived in the aftermath of the worst recession since World War II in 1994. It meant that it was very hard to get loans from banks (without solid property collaterals). Even if the recession had not hit other European countries as hard, they too were cautious and did not give credit to a new wholesale company, which meant that all trade had to occur on advance payment or COD basis. In Asia this was a rule with no exceptions.

In the beginning it would not be hard to finance the business, because the VIP-Hiusklubi was quite profitable and thus also Cencei had quite a great amount of cash for use. However, the more the business would develop, that is to say, the better suppliers it would find and the more

5. THE INTERNATIONALIZATION PLAN

orders it would receive, the more financing the company would need to be able to grow. At some point a bank loan would be needed and negotiations for it were started immediately, although the first applications were denied.

This dilemma follows many companies, and not only in this particular business; the more the company grows, the more money is tied up in stock and product orders, however, customers demand credit and the cash-flow inwards is delayed far beyond the delivery of goods or services.

5.1.1.5 Warehousing

Whatever the products bought, a wholesale company needs storage space. In case of chemical products that need is multiple compared to simple tools. Chemical products (which were going to be one part of the product selection of Cencei) are spacious and they need a warm warehouse to keep in tact.

Cencei had a couple hundred square meters of storage space, but most of that was in an outdoor garage and thus not suitable for chemical products at least. The warehouse space was seen to satisfy the needs for at least one year, even if the business would grow expectedly.

5.1.1.6 Image

The company image is usually formed out of experiences with that company and its employees. A new company's image starts to get form in a customers mind the first time he or she sees, hears or experiences something about the company, whether it be a brochure, an advertisement, a sales person or perhaps a telephone conversation with a company employee.

Cencei had no image whatsoever. It was a one-time opportunity to make a good first impression. The company management realized that and therefore the first appearances (the exhibitions) were carefully prepared, the promotional material, the looks of the staff, the products, the pricing, every aspect had been taken into account.

However, without knowledge of what would happen after the first contacts with customers, not enough attention were put on actions subsequent to potential orders; customer service, delivery schedules, payment terms, customer records. With proper care and responsibility to take care of the before mentioned actions a high quality image could have been created from the very beginning. In practice, the first orders were delayed, payment terms were not made clear to customers and management did not accept responsibility of these faults, which led to formation of a bad image after a good start.

5. THE INTERNATIONALIZATION PLAN

5.1.1.7 Reliability

Reliability should be one of the biggest concerns of a company, because the lack of reliability scrutinizes a company's image very fast and if there is an alternative supplier, customers will most likely switch to use that one.

In Cencei reliability was taken into account on the order side of the business. It only made agreements and orders, where the delivery times and items very carefully specified, the freight forwarder chosen was reliable, the banks and payment methods used were also perceived and experienced to have the highest possible reliability. However, the reliability that was experienced from an individual customer's point of view had not gained enough attention.

The reasons for the lack of reliability that faced the company soon after it received its initial orders from individual hairdressers were numerous. These and their reasons are explained in further detail next.

5.1.1.8 Delivery times

The persons selling the items were not well enough informed of the time it would take to order more products from abroad, if a product would get

sold out. If the freight would take one week from another European country, then the person selling the product to the customer often promised one week as the delivery time. This was impossible to meet in practice.

Also the eagerness to receive orders lead people to promise too tight a delivery schedule. If a customer had a need for a product after a week, the ones responsible for sales would promise the delivery time accordingly even when knowing beforehand that it could take a couple of days longer than promised. This caused a lot of confusion; too much time was being wasted in communication between the customers and Cencei due to the delays in deliveries.

5.1.1.9 Payment methods

All prices published and offers made were based on advance cash payment. However, that was an unusual business practice in this field and every hairdresser was used to get at least a few weeks of credit for his or her payments.

Another payment method that caused confusion was the use of post service's cash-on-delivery. This caused problems for the pupils in trade schools, because all the products ordered by one class or even one school were delivered as one order. When one or a couple of students (out of 30

5. THE INTERNATIONALIZATION PLAN

for example) did not have the money available at the time of the delivery, it meant that no other student would get their tools either and the anger and disappointment directed towards the wholesales company, even when it should not have.

5.1.1.10 Incomplete deliveries

As products were growingly sold with too tight a delivery schedule, it caused a snowball effect in delays for some products; the more they were sold, the more the deliveries would be late. To make up for the delays, each product was delivered as soon as it arrived, even though a customer would have ordered several products that were to be used with each other. This lead to extra work, instead of one package per customer, Cencei had to send several packages, extra costs and unsatisfied customers, who were receiving their orders, literally, piece by piece.

5.1.1.11 Credit risk

Unwillingness to take any credit risk (taking advance cash payment or C.O.D. only) created also some negative image in customers, especially if Cencei had a product that they really would have wanted to buy, but were unable to do so because of the rigid payment policy. However, alone the denial of credit after a recession, which had made also the hairdressers'

5. THE INTERNATIONALIZATION PLAN

lives difficult as well as bigger investments without an extended payment period, created negative attitude towards the company.

5.1.2 Resources

As already covered to some extent, many of the resources the company had were directly meeting the demands that were set to a company to be able to internationalize. However, Cencei possessed also resources that were untypical to a company in this field of business and some resources that perhaps it could have done without, but that were of big help for it in starting the international wholesale business.

These resources are quickly referred to here below.

5.1.2.1 Warehouse

VIP-Hiusklubi had a very good lease contract on the premises where it conducted its business. The storage space for goods was exceptionally big. There was a lot of free, unused warehouse space just waiting for some use. It was because the premises were undividable into separate premises, why they were originally included in the lease contract. This was an exceptional and unique situation compared to any other wholesale company that has to start from scratch

5. THE INTERNATIONALIZATION PLAN

5.1.2.2 Financial assets

Again, due to the success of VIP-Hiusklubi (and in particular its hair-care product sales) Cencei had a strong financial background and a lot of “extra” cash available for some better yielding activity than the interest the bank was willing to pay on it.

5.1.2.3 Delivery channel contacts

Even though their customer base was small, it was of great help that the CEO knew a few independent sales men personally and had irregular, but ongoing small business with these sales men. They offered their knowledge of suppliers as well as their sales power to Cencei, some of it consciously the rest without knowing they had.

5.1.2.4 The teacher

If there is one single person that can be pointed out as crucial in the beginning of the wholesale activities, it was Jari Kangas, the teacher and head buyer of Helsinki trade school for hairdressers. Not that Cencei would not have been successful without him too, but the contacts with

5. THE INTERNATIONALIZATION PLAN

him greatly helped to take the first giant steps into the somewhat unknown business.

Mr. Kangas was the buyer of all equipment and tools of the newly established hairdressers' trade school in Helsinki, which was the biggest trade school in this field in Finland. He was also a very good acquaintance of Mr. Nenonen, the CEO of Cencei and VIP-Hiusklubi.

Apart from his expertise, which will be covered again later on in this chapter, he had contacts and knowledge that was very valuable to Cencei. He knew all the teachers and especially buyers from all the other big trade schools in Finland. This information and his help prepared Mr. Nenonen and his workers well for the autumn season with just the right contacts and the knowledge what kind of matters these people appreciate in dealing with wholesale companies.

He also knew all the novelties and products that competing wholesale companies had to offer, because he had to have the latest information and experience of the field due to his profession. This information was not anything secret, but much easier available from this kind of contact than it otherwise would have been.

With the help of Mr. Kangas Cencei was far better prepared for the coming Autumn semester 1994 of the trade schools than anyone could

even have imagined. This surprise element proved to be quite successful too.

5.1.2.5 Luck

As every successful company, some good luck is also behind everything. This may not be acknowledged by any theory of business, but the truth is that some of the facts of being in the right place at the right time and knowing the right people are such that they are not available to all companies, no matter how hard they would work towards them, even if the starting circumstances would be exactly the same. Cencei also had good luck, not only in knowing some essential people, but also finding out some suppliers or competitors offers by accident.

5.1.2.6 The author as negotiator

To start international trade and business even in smaller scale requires communication and as the suppliers usually do not know any Finnish, the options are to communicate in English or on the suppliers language. Cencei had no personnel that would have practice or even theoretical knowledge of correspondence and business terms in English, nor was the general knowledge of languages very good.

In the very beginning the author translated some faxes made by Mr. Nenonen and his colleague Mr. Rantanen in English, but soon Nenonen realized that the running of this kind of a business requires ongoing communication and extensive work in finding the suitable foreign suppliers, which led to the hiring of the author to work for Cencei in April 1994. Between that time and May 1995 the author produced over 1.000 letters or faxes in English and participated in more than 100 business negotiations, most of which were conducted in English.

5.1.2.7 Product expertise

I guess no other newly established wholesale company in hairdresser tools and equipment business in Finland has ever had so much product expertise in its use as Cencei had from the very beginning. The expertise had accumulated to its CEO by courses attended and following the industry closely, but even more expertise was vested in his subordinates, the hairdressers working in the VIP-Hiusklubi. This knowledge was not static, but it accumulated and was up to date all the time, one reason for which was that there were always a few hairdressers working for him that were studying in the trade school at the same time to gain the official degree of a hairdresser.

Perhaps the most valuable product expertise that was utilizable by Cencei was the professional knowledge and vision of Mr. Kangas, the teacher in

5. THE INTERNATIONALIZATION PLAN

the hairdressers' trade school in Helsinki. In fact the use of his expertise was not only limited to his opinions and visions, but he also actively tested and valued the sample products that Cencei imported to Finland from various sources. He also advised the company of which products would be needed by the trade schools and how much they usually cost. He also participated a couple of exhibition trips abroad with the company and acted as a professional advisor and helped choose the suitable products for the Finnish market.

5.1.2.8 Knowledge of the business and competitors

Having been so long in the business as a customer to the wholesale companies, Mr. Nenonen knew all about the practices of his competitors, pricing, payment terms, product selection and all other aspects of their business. Keeping that in mind, he also knew exactly what activities he could do better than his competitors, which gave him an advantage compared to any other newcomer in this business.

5.1.3 Obstacles

One product category, which was almost insensitive to changes of fashion, trends and economic situation were the chemical products (styling products, finishing products, perms and alike). In other products,

like tools and equipment, fashion and trends dictated much about what kind of products and which manufacturer's products were sold, but not so much in the hair-care chemical products.

As had already been discovered by VIP-Hiusklubi, the sales of hair-care products was indeed a very profitable business and, in fact, brought more revenues than selling the hairdresser's services did. After the recession hairdressers had discovered that their income had dropped and they had found another source of income besides their services, the sale of hair-care products.

The importing of chemical products would generate a steady and sure income, even if only sold through VIP-Hiusklubi and not to other hairdressers. However, there was a problem with that, because it was seen as not appropriate by the brand wholesale companies, because they see it as direct competition with them. However, the chemical products had a huge profit margin, if acquired from abroad and sold in Finland. That is why this option, even if not viable in the present situation seemed alluring and for testing the reactions small amounts of well-known branded chemical products were imported. As an opportunity still remained the importing of a chemical product line that had no representation in Finland and would thus not be interpreted as a competing action against anyone. Moreover some regional wholesale companies already imported a hair-care product line of their own, but mostly to be used in the salons, not to be sold to the consumers.

An obstacle that the company soon faced whether talking about chemical products or tools or equipment was the existence of exclusive sales contracts. Some suppliers (mainly wholesales companies, not manufacturers) in Europe had already been contacted by another Finnish wholesale company to whom they had granted an exclusive right to sell their products in Finland.

5.1.4 Risks

Importing tools and equipment did not pose a threat or risk as such, not even from the chemical brand product wholesale companies, because although they also selling tools and equipment, it was more of a service than a real business to them. It was for them a part of being “full service houses” and providing their customers with everything they would need, with quite a high prices, of course.

Then again importing chemical products, at least the same brands as Cencei was now buying in Finland for VIP-Hiusklubi would be a huge risk to take. If Cencei would do that, it would most likely be seen as a competitor for brand wholesale companies and they would probably deny selling anymore their products to Cencei or Vip-Hiusklubi. This would really hurt the existing business of Cencei. There would be no way to replace all the products needed with imported ones, nor would it be

5. THE INTERNATIONALIZATION PLAN

profitable either, because Cencei already got the biggest volume discounts in Finland of its purchases from brand wholesale companies.

Another big risk that came with all the advantages of VIP-Hiusklubi and Cencei being companies within the same concern was that the hairdressers would see VIP-Hiusklubi and Cencei as one and the same. This would result in rejecting to buy from their "competitor". There is heavy competition between hairdresser salons and no hairdresser wants to support his or her competitor by buying products from another salon. It would also raise bitterness and envy if the VIP and Cencei would be seen as one entity, because the hairdressers from small salons would discover that Cencei can sell the same products out cheaper than the individual hairdresser can buy them in from a brand wholesales company.

5.2 The consequences on domestic business

The consequences on domestic business from starting the international wholesales business would depend on how the businesses of Cencei and VIP-Hiusklubi would be developed after the initial start-up phase of Cencei's activities.

If the concern structure would remain as it is and both companies would continue working from same premises, it will be highly likely that the risk of the companies being seen just as a big salon that has started its own

5. THE INTERNATIONALIZATION PLAN

import activities will realize. This would hurt Cencei's business seriously and perhaps also the respectable reputation of VIP-Hiusklubi among other hairdressers.

However, if the businesses are kept separate and they look like separate businesses from outside (different premises and staff at least) then alone the gains derived from within the concern are such that the actions will turn profitable anyway. VIP-Hiusklubi has acquired a position and a reputation as being the number one hairdresser's when looking for professional hair-care products with reasonable prices. The sales of professional hair-care products from salons is tend to rise as the economic situation is improving, but also because the young people are more conscious about their looks than the older generations, especially young men. By importing some hair-care products of its own and selling them through VIP-Hiusklubi Cencei could expand its business and concern profits without any risks to its domestic business.

In fact, it would be less risky to add more wholesale activities compared to the present situation where the profitability lies on the hairdresser's services and product sales alone. Selling the services is hardly profitable at the moment (1994); hairdressers have customers only a part of the day, still they are paid by the hours spent on the working place. Increasing the product sales, whether by VIP-Hiusklubi or Cencei would be more profitable than selling the services and thus improve the financial situation from the present.

If the wholesale business would turn to be successful, it would probably have a “snowball effect” as the small regional wholesale companies would also begin joint purchases with Cencei or even buy the products from Cencei instead of importing themselves, because the quantity discounts are usually considerable as well as the transportation costs. This of course provided that every regional wholesale company, Cencei included, does not compete on each other’s region.

5.3 Inward internationalization in the company

Along with the domestic business activities, which are more or less familiar to Mr. Nenonen already from a customer’s point of view, the setting up of a wholesale business brings with it a number of international business activities, namely logistics, import regulations, credit risks and communications to mention a few. In this case, as the business is mainly derived from imports and the domestic business activities experience already exists to some extent, all these new activities are called with a common name, “import management”.

What Cencei needed, had and lacked in its import management is briefly described here below.

5. THE INTERNATIONALIZATION PLAN

5.3.1 Competence

In general, the management and the employees had almost non-existing experience and therefore almost no competence in conducting international business, not that it would be very complicated in itself. The management had let the independent salesmen send a few faxes abroad making orders in the name of Cencei, but had only supervised the actions. The author had very little experience of foreign trade, but a good educational background to the subject. However, the lacking competence was compensated with desire to learn and enthusiastic attitude towards creating something new from scratch.

5.3.2 Time to manage the activities

The management was fully tied up in managing the hairdresser salons and kept even to a too large an extent all the decision making authority to itself, which caused every little decision to be brought to the management to be decided upon.

The import management would require a high commitment and a lot of time, which the management realized and gave more authority to his fiancé and other hairdressers in managing the daily activities of the salons. The management also gave a lot of authority to the newly hired import manager of the company, namely the author, together with a lot of

5. THE INTERNATIONALIZATION PLAN

responsibility to be carried of the companies import management and all of its activities.

5.3.3 Logistics

The logistics in the beginning were organized according to the initial orders from customers, which was very cautious, but also very risky, because it did not have any flexibility if the demand would rise as happened. Later on the logistics was better planned ahead and as the quantities imported grew, this was planned months, even a year ahead to avoid any bottlenecks in deliveries.

5.3.4 Credit risks

The problem with advance cash payments is the risk the payer is taking, the same held true also for Cencei. When trading with European companies, many of them accepted C.O.D., but some demanded advance cash payment. This posed a clear risk, as one can never really know, if the goods you paid for are going to be delivered, especially if you are dealing with someone for the first time.

However, doing business in Europe proved easy, even the promised delivery times by suppliers were met and no financial losses incurred.

5. THE INTERNATIONALIZATION PLAN

Cencei did a lot of business also with Asian companies. The method of payment preferred by these suppliers was a letter of credit. However, the bank fees for a letter of credit were quite high and the money value of each order quite low, which seemed unreasonable. Therefore, with the suppliers that were personally known the payment method used was advance cash payment. The risk of loss was quite high in theory, although the money amounts were not very big, luckily no losses were experienced during that time.

5.4 Foreign trade aspects

The number of middlemen turned out to be quite high for many tools and equipment between the original manufacturer and the wholesales company in Finland or elsewhere in Europe. The easy way to cut costs of course would be to cut off some middlemen.

When trying to realize this easy logic it was soon obvious that the manufacturers of many of the goods in the hairdresser products field set such a high minimum quantities for individual products to be ordered that even the whole Finnish market for these products would not cover that kind of an amount in a year. The cheapest products were produced in China and there also the quantities to be ordered were the highest.

5. THE INTERNATIONALIZATION PLAN

Many other Asian companies (as well as the Chinese, either directly or through a middleman) made it very clear that their main market is the United States and after that either Europe as a whole (through one importer) or some of the biggest European countries. Finland was considered so marginal a market that it often seemed a waste of time even to negotiate or quote an offer for imports to Finland.

European companies were more flexible, but then again many of them had imported the same products from Asia in a bigger quantity and then offered these products with their margin added on to anybody who was willing to buy.

The best sources of products in Asia for Finnish small importing companies seemed to be small enterprises that were quite new in the business, but had good contacts to the sources of desired products and could offer them even in smaller quantities. The problem was, however, how to find these companies, because they usually were not listed in trade catalogues (at least not in those available in Finland), nor was their contact information available through the embassies or trade organizations in Finland. Yet these companies could easily be found on the spot in their home countries with the help of local trade officials.

Finland joining the European Union in 1995 brings some trade restricting and some liberating effects with it. The liberating effects are mainly the cut down on some tariffs, but then again the restrictions will be imposed

on imports from outside the EU, quotas and alike, which could make it difficult for import-driven companies to adapt their business accordingly.

6. SUMMARY AND CONCLUSIONS

The Finnish hairdresser industry as a whole⁵² suffered a series of shocks and actions worsening the economic situation and profitability of this industry, permanently. In the beginning of the 1990s the worst recession of post WWII time hit the whole of Finland severely. The consequences were that consumption fell, as did the prices, massive amounts of people were laid off, some of which became entrepreneurs, and some started from the beginning as hairdressers. The worsened economic situation and toughened competition cut the already low margins of hairdresser services even lower, which led to many bankruptcies, difficulties to meet the payments and increased amount of debt for the hairdressers.

The poor economic situation consequently hit the wholesale companies in the hairdresser field also. The amount of credit losses grew, margins were cut and substitution of high quality products and tools to cheaper ones was observed among their customers. Some smaller wholesale companies went bankrupt⁵³ due to the reasons mentioned earlier. The big brand wholesale companies survived the natural cycle in economy fairly well, so did the well established regional hairdresser's tools & equipment wholesale companies, who had done extremely well since then due to lack of regional competition.

⁵² By the hairdresser industry is here meant the hairdresser's salons, the regional wholesale companies and the national brand wholesale companies, salesmen selling hairdresser products and agents representing these products

6. SUMMARY AND CONCLUSIONS

However, just after the recovery of the recession had begun, new changes hit the industry, the value-added tax was going to be imposed to hairdresser's services, which was going to cut the income of hairdressers, no matter whether put on top of the tax free prices or absorbed in the prevailing prices. This, of course, was another setback for the wholesale companies as well, but also an opportunity at the same time, if the income structure of the hairdresser salons could be switched more in the direction of product sales to consumers.

The last hit for the wholesale companies was the decision of Finland joining the European Union from the beginning of 1995. This would mean that the cartels, limitations of imports and agreed-upon price levels on hair-care products and tools would be abolished. Worried scenarios of individual hairdressers ordering all their tools and supplies from abroad where they were cheaper were presented among the wholesale business. All these factors took place within a five-year-period and caused very high pressures to change the business of both hairdressers' and wholesale companies.

For hairdressers the changes did not give much options, the common conclusion was that the income from services given would drop, even below cost level, whereas product sales to consumers seemed to be a solution that would save the salons from further bankruptcies. This was not an easy change, the attitudes of hairdressers were more artistic than

⁵³ As happened to the agent of a chemical products brand "Trésemme" in Finland

6. SUMMARY AND CONCLUSIONS

business driven and it became very much the brand wholesale companies' responsibility to provide hairdressers with items and surroundings (display shelves, promotion material and alike) that promoted this new business.

For regional wholesales companies the new situation posed a huge threat. Until now, almost all control of their business environment⁵⁴ was in their own hands, in the future no rules applied. Anyone could enter the same business in Finland and, even worse, a foreign competitor with lower prices, huge quantities of goods and deep pockets could enter the market. The markets were going to open up, big time.

In that situation the threats for existing businesses, if continued in the old way, were high, but in opposition the new business environment offered a vast number of opportunities never seen before. New ideas, new products and new businesses were bound to be established. The negative pressures from within Finland were pushing the companies and new entrepreneurs to seek competitive advantages from abroad and the opportunities seen in the rest of Europe just waiting to be brought to Finland pulled them to internationalize even more. However, nobody knew just what should be done and in which order to reap these gains lurking just behind the corner. That is also one original reason why this

⁵⁴ By business environment is here meant the agreed-upon sales regions for each company, the equal prices on products and the for great extent same product selection that was bought from one or two importers of these goods (an agent or another regional wholesales company)

6. SUMMARY AND CONCLUSIONS

study was made, to find out the situation in Finland, the opportunities abroad and how they could be utilized for the Finnish companies. The example country to which the situation was compared to was chosen to be the United Kingdom, because of its long traditions in the top of the hair-care industry in general and the personal contacts that were made to that country.

The comparison to the United Kingdom seems to be a good and relevant example, although United Kingdom is not a small economy in a way that Finland is, but let us think the matter a little bit deeper. In the United Kingdom the wholesale companies (cash & carries) do not compete on a regional, not to mention on a national, but rather on a local level. On this local level the situation and environment for these cash & carries resembles a small and open economy, as is the case in Finland for the regional (and even national) wholesale companies. Based on this observation it was relevant, in my opinion, to compare directly the UK based cash & carries to the Finnish wholesale companies.

The comparison showed what was possible to gain, if the markets would change drastically, it also gave a lot of insight on how the Finnish wholesale companies could develop their businesses, not only in terms of goods sold and their origin, but also regarding business practices and customer relations.

One of the biggest findings was the difference in efficiency in the wholesale companies between these two countries. In the United Kingdom the circulation rate of stock was very high and the product selection limited often to only one alternative per product category. In Finland however, the wide range of choice was (perhaps falsely) appreciated and thus stocks held were bigger, circulation rate slower and efficiency lower. Also the structure of the business was quite different from that in Finland at the time. The status of chemical products was much higher and they made a vast part of the turnover as well as profit, although the margins were small as, once again, the situation in Finland was quite the opposite.

One thing that had to be kept in mind, however good opportunities the differences in price level and business practices would provide, were the attitudes of Finnish hairdressers. They are very proud of their profession and expertise and use “professional” products and tools to strengthen that status. Therefore any product that would be sold directly to consumers as well as hairdressers (as is done in all the cash & carries in the United Kingdom) would be deemed “inferior”, because it was meant for consumers and no hairdresser would buy such a product. As the attitudes of people tend to be changing only slowly as awareness and knowledge about the business practices abroad rises, it will be impossible to make a profitable business overnight by implementing a copy of a cash & carry wholesale in Finland. However, a wise manager of a wholesales company will see what characteristics and actions will be possible to

realize in a newly established company or what changes can improve an existing wholesale company by its internationalizing its operations and thus seeking competitive advantage in the changing environment.

6.1 Managerial implications

Because Finland is a small and open economy, it seems very wise and natural to follow the stages presented by Luostarinen⁵⁵ in the internationalization of a wholesale company in the hairdresser's tools and equipment field of business, but applied to inward internationalization and similar to a reverse order as applied from Bilkey and Tesar⁵⁶ by the author in chapter 2.⁵⁷

There is a lot in common in the Finnish companies and the cash & carries in the United Kingdom when focusing on their operational activities and a comparison thus is relevant. Yet there are differences in the business environments that these companies are operating in. For example in the United Kingdom the brand wholesale companies have given up their monopolies and support the cash & carry outlets in their sales activities, whereas in Finland the brand wholesale companies still want to hold on to their monopoly (although nobody restricts importing

⁵⁵ Luostarinen, 1979, pp. 109-111

⁵⁶ Bilkey, W. and G. Tesar, The export behaviour of Smaller-Sized Wisconsin Manufacturing Firms", Journal of International Business Studies, Vol.8, Spring/Summer 1977, pp. 93-98

⁵⁷ pp. 26-27

6. SUMMARY AND CONCLUSIONS

the same goods from abroad, in practice it is a monopoly, because the brand wholesale companies will not sell their products to a company that imports a part of their selection from abroad) position.

Otherwise the same rules seem to apply for both countries when observing the situation from the individual wholesale outlet's point of view. Therefore the recommended course of action is for the most based on the situation in the United Kingdom and the cash & carries over there, one reason being Finland joining the European Union and becoming a part of the common market with open borders and no restrictions for trade. However, in the recommendations it will be at the same time taken into account the different business environments and different business practices between these two countries.

For Cencei it seemed that internationalizing step-by-step would be a good way to set up the business. There was not much experience or competence of foreign trade in the company, however there were both strong push and pull forces that drove the company to internationalize. In this kind of a situation the risk of failure due to lack of experience is quite high, therefore the money invested in the actions should be kept low until the learning process of these activities has lowered the risk involved. In practice, the acting as an agent for a foreign supplier or manufacturer would be the smallest step to take, but even a non-direct import from a middleman in Europe seemed to be within the reasonable risk limits to start the business from.

As there was no obligation to do any investments in the beginning, no investments should be done. A company like Cencei needs warehousing space, it needs personnel to take care of the deliveries, sales personnel, accounting, logistics, marketing activities and alike, but in this case the company had the luck to be able to utilize these resources from VIP-Hiusklubi, whenever possible. However, in the longer run, to avoid the risks of hurting its original salon business and to ensure that Cencei will have an image of its own and not one connected to the salon chain, the separation of these activities must take place. This goes as well for the physical location of the companies as well as for the personnel, warehouse, sales premises and all activities and factors visible to the customers. Those factors not visible to customers, for instance accounting software, computer connections, product testing and evaluation do not have to be separated, rather here the product expertise and other synergies within the concern structure should be utilized.

As the chemical products do have the biggest margins in Finland, it would be rather foolish not to start importing chemical products, because selling them is also easier than selling tools or equipment. The buying decision of a customer regarding tools or equipment is a big decision, because it means spending hundreds or thousands of marks in something that is supposed to last for years and therefore the customer is less likely to switch from a previous tool to a new totally unknown brand. However, the hair-care products, even with high margins, still have a

relatively small unit price, which makes the buying decision easy. Also hairdressers love novelties, every new product is seen as a possibility to refine their own work of art, the work itself.

One must still remember that it would perhaps not be worth a while to import a brand that has its own brand wholesale company in Finland, because that would inevitably mean that the possibility to buy that brand manufacturer's product from Finland would be lost for a long period of time. Furthermore for Cencei this kind of activity would mean that the brand wholesale companies would also cut all their deliveries to the VIP-Hiusklubi, which would have serious negative effects on its business and could even jeopardize the whole existence of the Cencei concern.

What could be done, however, is to import at first a product line of hair-care products from a middleman or cash & carry⁵⁸ from abroad. If that would prove successful, then later on it would be possible even to start a brand of one's own. Contract manufacturing is very common in the UK, but it is very rare in Finland.

As Finland, even when considering the whole of Finland, is still quite a small market, it may be difficult for any one importing company to get better deals on products than the competitors, but by forming loose purchasing pools as in the UK or using even more co-operation every

participant of these pools would gain more than at the moment. These kind of loose strategic alliances would also give Cencei a better base to build its business on than by doing everything by itself.

It may sound extraordinary that a wholesale company would concentrate on a very limited number of products, but this is probably how the business should be started. The financing alone dictates limited possibilities in the beginning of whatever business, this applies also to the wholesale of hairdresser's equipment and tools.

It is a bit more risky to concentrate in the beginning to selling only a few items, but this is also the only way to gain some volume discounts and reasonable prices on goods as opposed to buying very small quantities of a large number of items. In addition, the price advantage gained in any one item over the purchasing price for that same item for another wholesales company leads to the possibility to use this price advantage to trade the good for another good that is missing from the company's selection and still make a profit from the exchange.

This is what is recommended also to Cencei in the beginning, to concentrate on a few items, buy bigger volumes of these than competitors, then trade the goods to other goods from the other

⁵⁸ In the UK many c & c chains have made a brand of their own covering the whole product line of chemical products as well those that are to be sold to consumers as the "professional" items that are sold to hairdressers only (perms, tints, bleaching powder and alike)

6. SUMMARY AND CONCLUSIONS

wholesales companies if necessary or sell the goods with a greater profit and lower price than competitors.

APPENDICES

LIST OF REFERENCES

- Anttila, J. (editor) Tytärtyhtiön perustaminen Sveitsiin, Lege Artis Oy, Tampere, 1980
- Barham, K. and Oates, D. The International Manager, The economist Books Ltd, London, 1991
- Bilkey, W. and G. Tesar The export behaviour of Smaller-Sized Wisconsin Manufacturing Firms", J
- Borner, S. Internationalization of Industry, an assessment in the light of a small open economy (Switzerland), Springer-Verlag, Berlin, 1986
- Buckley P. J. & Ghauri P. (editors) The internationalization of the Firm, a reader, The Dryden Press, London, 1993
- Czinkota, Ronkainen, Moffett International Business, The Dryden Press, USA, 1989
- Forsgren M. Managing the internationalization process, the Swedish case, Routledge, London, 1989
- Haavisto, P., Kuitunen, T., and Saralehto, S. (editors), elinkeinoelämän tutkimuslaitos Kansainvälistyvä yritys ja muuttuva Eurooppa, Taloustieto Oy, Helsinki, 1991
- Joynt, P. International Strategy in Norwegian firms: an analysis using Porter's model, Working paper from Bedriftsøkonomisk Institutt (Norwegian School of Management) no. 1988/4, Bedriftsøkonomisk Institutt (Norwegian School of Management), 1988
- Joynt, P. and Welch, L. A Norwegian Strategy for Internationalization, Working paper from Bedriftsøkonomisk Institutt (Norwegian School of Management) no. 1985/5, Bedriftsøkonomisk Institutt (Norwegian School of Management), 1985

LIST OF REFERENCES

- | | |
|------------------------------------|---|
| Kervinen, K. | Parturi- ja kampaamoala. Toiminnan analyysi ja kilpailukyvyn parantaminen, Suomen kähertäjälitto r.y., Helsinki, 1988 |
| Laurila, P. J. | Kansainvälistymisen riskit, Insinööritieto Oy, Helsinki, 1982 |
| Levitt T. | The marketing imagination, The Free Press, New York, 1983. |
| Luostarinen, R. | Internationalization of the Firm, Helsingin Kauppakorkeakoulun julkaisuja, Helsinki, 1979 |
| Luostarinen, R. & Welch, L. | International Business Operations, 1990 |
| Mintzberg, Henry & Quinn, J. Brian | The strategy process, Prentice-Hall International Inc., Englewood Cliffs, 1991 |
| Nordström, K. A. | The internationalization process of the firm - Searching for New Patterns and Explanations, Institute of international business, Stockholm school of economics, Stockholm, 1991 |
| Ohmae, K. | Triad Power: The Coming Shape of Global Competition, The Free Press, 1985. |
| PJ 1985, Uusi Pikkujätkiläinen | editors Kalevi Koukkunen, Lauri Lehtinen, Tarmo Mäki-Kuutti, Pekka Saloranta, Timo Virtanen, Porvoo, 1985 |
| Porter, M. E. | Strategia kilpailutilanteessa, Oy Rastor Ab, Helsinki, 1984 |
| Porter, M. E. | Changing Patterns of International Competition, California Management Review, Vol. XXVIII, No.2, Winter, 1986. |
| Porter, M. E. | Competitive Strategy - Techniques for Analyzing Industries and Competitors, The Free Press, New York, 1980 |
| Porter, M. E. | Competition in Global Industries - A Conceptual Framework. Paper presented at the 75 th Anniversary Colloquium on Competition in Global Industries 1984. |

LIST OF REFERENCES

- Reid, Gavin C., Jacobsen, Lowell R. and Anderson, M. E. Profiles in small business, a competitive strategy approach, Routledge, London, 1993
- Skare, R. The concept of internationalization and Porter's 'Diamond model', Working papers from Rogaland University Center no. 171, Stavanger: Rogaland University Center, 1993
- Strandskov, J. Virksomheders internationalisering, Teorier om processer og udviklingsforløbet, Erhvervsøkonomisk Forlag S/I, Copenhagen, 1987
- Strandskov, J. Toward a new approach of studying the internationalization process of firms, Working paper from Institute of International Economics and Management (Copenhagen School of Economics and Business Administration) no. 4/1986, IIEB, Copenhagen, 1985
- Vernon, R. The Product Life Cycle. Hypothesis in a New International Environment. Oxford Bulletin of Economics and Statistics, 41 (November), pp. 255-267
- Yin, R. K. Case study research, Sage publications, Newbury Park, 1989

APPENDICES

INTERVIEWS

Berner, Hans, 1994

Bocedi, Loris, 1994

Kangas, Jari, 1994

Kauts, Enn, 1994

Marttunen Kreetta-Liisa, 1994

Nenonen, Veikko, 1994

Rantala, Pasi, 1994

Rantanen Kari, 1994

Rosendahl, Stig, 1994

Stevenson, Paul, 1994

Stevenson, Paul, 1995

Toivonen, Asko, 1994

Zuffellato, Carlo, 1994

Åhman, Jani

Berner Oy, Helsinki

Artem S.R.L., Italia

Kauneudenhoitoalan oppilaitos, Helsinki

Junor A/S, Viro

Vip-Hiusklubi Oy, Helsinki

Cencei Oy, Helsinki

PR-myynti, Helsinki

Vip-Hiusklubi Oy, Helsinki

Rosendahl Oy, Vaasa

Fashion Services, Reading, the United Kingdom

Fashion Services, Reading, the United Kingdom

Hair Mail Oy, Helsinki

Caliven S.R.L., Italia

Suomen Kampaamotukku, Helsinki